

# Public Utilities

Volume XLV No. 2



January 19, 1950

## HOW TO GET THE SMALL INVESTOR INTERESTED

*By Larston D. Farrar*

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## Is Texas Running Dry?

*By Ernest R. Abrams*

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## How Electricity Came to 100,000 Farm Customers

*By Herman J. Gallagher*

< >

## A Course for Electric Utility Workers

*By Arnold Haines*

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round boiler



Installed  
round furnace



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# Public Utilities

## FORTNIGHTLY

VOLUME XLV

JANUARY 19, 1950

NUMBER 2



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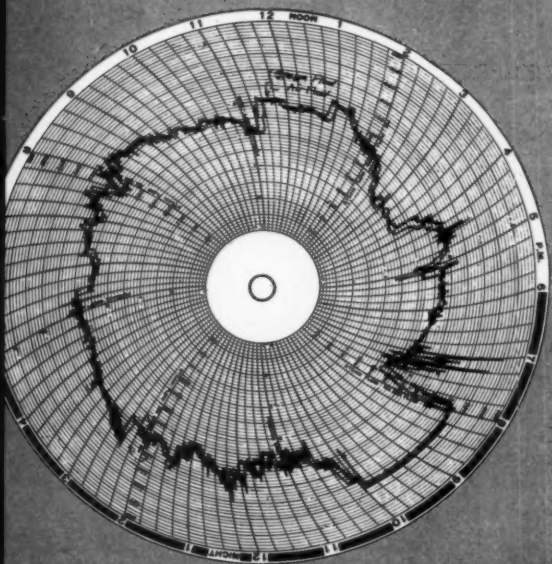
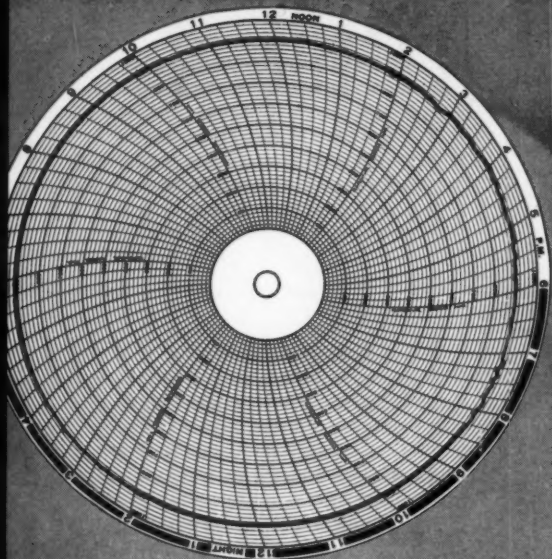
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# Precision

## MAINTAINED

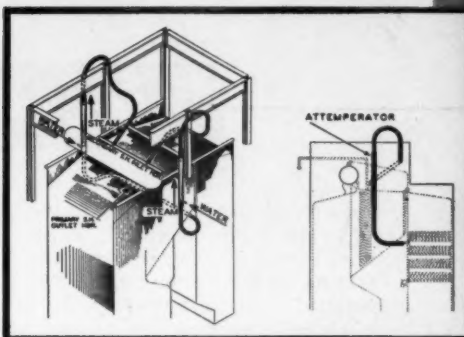
← Typical steam-temperature chart from a large central station boiler equipped with B&W Spontaneous Combustion Attemperators shows uniformity of final superheated temperature.

← Steam-flow chart shows wide load variations in the same boiler throughout the corresponding period of operation.

**SERVICE-PROVED ON OVER 100 BOILERS**



Fig. 1: Intermediate location of attemperator reduces alloy requirements . . . overcomes unbalanced temperature conditions in second stage superheater.



# Control of Superheat

## WITH B & W SPRAY ATTEMPERATORS

For many high-temperature boiler installations, B&W Intermediate Spray Attemperation provides the most effective means of superheat control, and often at demonstrably lower cost than other types. Located between primary and secondary superheaters, Spray Attemperators offer the obvious economy of reduced alloy-tube requirements by maintaining uniform tube temperatures in the second stage, where temperatures are highest (see Fig. 1). Harmful impingement of spray water on pressure-piping surfaces is effectively prevented by a special venturi liner, which also assures rapid evaporation of the spray water and dry steam to the second stage superheater (see Fig. 2).

These facts help explain why so many power companies prefer B&W Spray Attemperation. Have your B&W representative explain fully its advantages for safe, efficient high-temperature operation.



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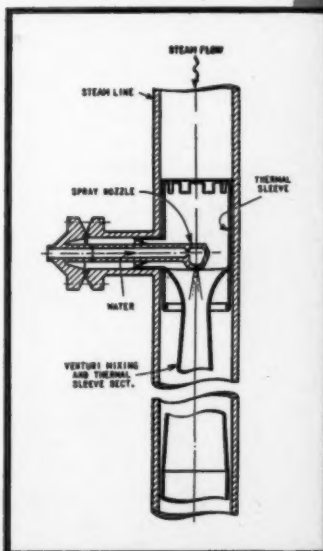


Fig. 2: Special venturi-shaped liner mixes atomized spray with steam, away from direct contact with pressure piping surfaces.

OVER BOILERS SERVING OVER 5<sup>1</sup>/<sub>2</sub> MILLION KW. OF GENERATING CAPACITY

G-45

## Pages with the Editors

AMONG the major utility operating puzzles for management, which have been around for some time and are likely to take an encore during the still New Year of 1950, is the perennial problem of obtaining equity financing. As we recall, a little over a year ago, Federal Power spokesmen were scolding certain gas industry spokesmen for suggesting that the problem of equity financing might be traced, in part at least, to regulatory restrictions.

BUT, whatever the cause, "junior money" is still hard to get on comparatively favorable terms, even for such a well-established business line as a public utility. We have taken careful note, therefore, of recent efforts to promote a broader base for the sale of utility securities. Some corporate organizations have shown considerable ingenuity in gearing their sales appeal to the so-called "mass market." The principle behind this technique seems to be the old idea, attributed to Henry Ford, that it is better for a merchant or manufacturer to make a lot of sales to a lot of people at a modest profit than to concentrate on fewer sales in a select market at a relatively greater mark-up, per sale transaction.



© Chase

LARSTON D. FARRAR

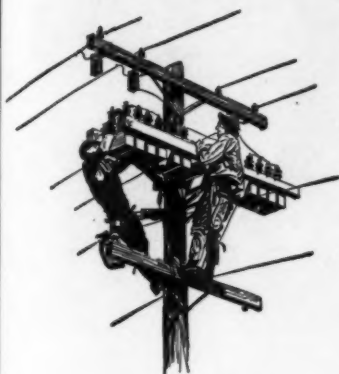
THE translation of this well-known merchandising principle from the sale of manufactured or retail items to the sale of securities may not be readily apparent. Large-scale investors, such as the institutional group, have usually been the prime customers for large-scale security transactions which have been characteristic of public utility deals. But certain things have been happening in the nation's economic structure which make the widow's mite, so to speak, worth seeking

THE main change has been brought about by the tax policy of the Federal government which makes it less attractive for the investor in the high income brackets to take a chance on stocks (as compared with bonds) than it was in years gone by. These same tax policies still make it possible for the citizen of modest means to realize, in terms of "take-home pay," a fair proportion of the attractive earnings promised by junior utility securities. Multiply this situation by the much greater number of citizens of modest means, who still have an extra dollar to invest, and the possibilities for developing such a market for stock securities become clearer.

In other words, the rich man's burden—high taxes—has created the poor man's opportunity. The greater dividends now available from well-established stocks are becoming more attractive to the "little people" who can count their blessings and keep them within the framework of the income tax brackets. LARSTON D. FARRAR, professional business writer, in the opening article in this issue, explores the possibility of utility companies using this new mass market for raising equity capital.

\* \* \* \*

THE comedians of radio, television, and press are still having their fun over New York city's recent "beardless Friday." Such gags as "I am saving my whiskers for a rainy day," and "it's smart



***This is strictly  
your problem . . . but this needn't be!***

● You wouldn't call on a bank to engineer a new power system. But if you have a new fiscal program to "engineer"—or any financial problem to solve—that's a different story.

One entire department of the Irving Trust Company, for instance, specializes exclusively in public utilities. Here you can discuss your business with understanding men who combine financial "know-how" with an intimate working knowledge of the industry itself.

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TOM P. WALKER—Vice President in charge

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to be dirty," are being kept on hand for New York city's next experiment in voluntary curtailment of water usage, at the citizen level.

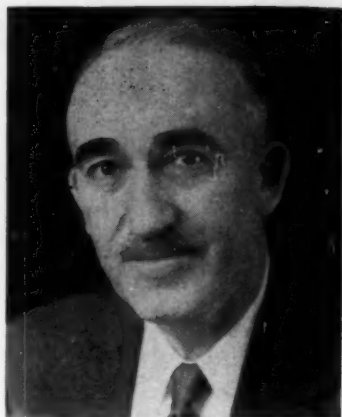
ASIDE from a question of whether the amount of water which can actually be saved, in this way, would be of much help in replenishing New York city's reservoirs, the experience undoubtedly had the wholesome effect of driving home a plain truth to a good many people. The lesson had its effect on millions outside of New York, as well as upon the Gothamites. If New York city and other eastern seaboard cities, where rainfall is, traditionally, supposed to be plentiful, can be brought to such a phase, consider the plight of our western and southwestern states.

THERE the problem of water supply has always been acute and the steady migration of a considerable portion of our population to those areas in recent years has aggravated the situation. In plain words, man's oldest and most vital utility service—water supply—is in danger of serious impairment in the nation's largest state, as a result of heavy withdrawals, increasing population, and industrial usage. Beginning page 79, there is a frank appraisal of the Texas water problem, and proposed solution for it, by ERNEST R. ABRAMS, New York economist and professional writer.

\* \* \* \*

IN the frequent discussion about the Federal government's part in rural electrification, there is a popular tendency to overlook the vast amount of progress which has been made in the same field by private electric companies — progress which has been made without a penny's expense to the Federal taxpayer — and which, on the contrary, has been made to the accompaniment of actual tax payments into the Treasury by the constructing and operating utility companies.

In this issue, beginning page 87, we have a splendid account of how one electric company celebrated the connection of its 100,000th farm customer in the state of Michigan. HERMAN J. GALLAGHER, JAN. 19, 1950



HERMAN J. GALLAGHER

general farm service supervisor of the Consumers Power Company, gives us the development story of the nation's most patronized electric utility company, from the standpoint of farm service customers.

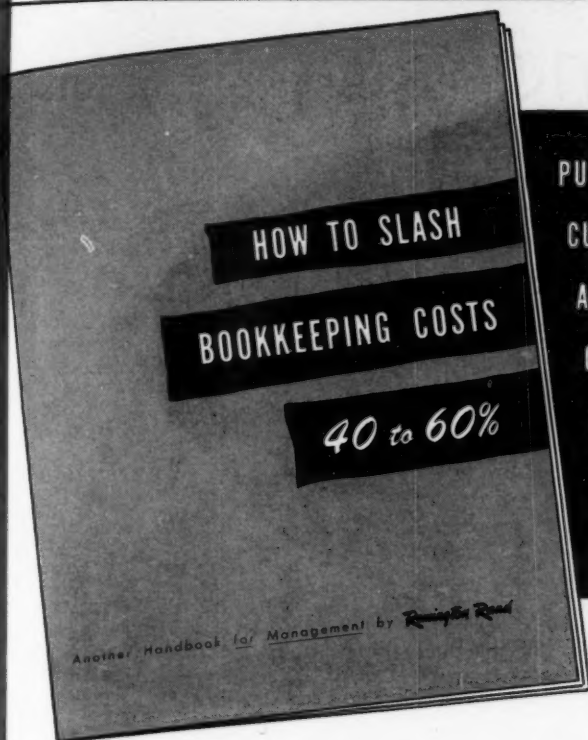
MR. GALLAGHER is a graduate of Michigan State College (BS, '15; MS agricultural engineering, '23). After some practice in farm teaching experience he was professor of agricultural engineering at Michigan State College from 1930 to 1936, in charge of the farm electrification program. In 1936 he took his present post with the Consumers Power Company. He is the author of numerous bulletins and articles on rural electrification and is active in both engineering and electrical industry organizations.

\* \* \* \*

A BRIEF review article by ARNOLD HAINES, Washington business writer, examines a recent special course, "Simplified Electricity," formulated for utility workers by a veteran New York state power industry man, P. R. Rutledge, and finds new features worthy of industry-wide attention.

THE next number of this magazine will be out February 2nd.

*The Editor*



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# Coming IN THE NEXT ISSUE



## **WANTED: TRUE LIGHT ON CO-OP TAX EXEMPTION**

When the president of the American Institute of Coöperation, Dr. Karl D. Butler, makes the plain and simple statement that "responsible co-op leaders know that the days definitely are numbered in which coöperatives can remain tax exempt," it would appear that the case for continuing the co-op tax exemption has fallen under the shadow of the inevitable. You will want to read Dr. Butler's sensible and dispassionate defense of the coöperative and his frank attitude towards coöperative abuses. He has some critical words of advice for some of the spokesmen for business as well.

## **WHAT MAKES THE FPC TICK?**

Perhaps it is the divergent backgrounds of the five commissioners, or it may be because of their differing personalities; but the fact remains, decisions of this most interesting of the "little courts" of Washington nearly always withstand fire in the higher Federal courts. Sally Alley, Washington lady reporter, accurately sketches the five men—an economist, newspaper publisher, tax expert, former governor, and U. S. Senator—who make decisions of import to the natural gas and electric utility industries.

## **DO UTILITY COMPANIES NEED MORE "SHOW SHOP"?**

They do if they are to keep the good will of their patrons. James H. Collins, Hollywood business editor and author, tells how an ex-Hollywood idea man, Guy Gifford, helped an harassed transit system get its riders into happier frames of mind—made them realize that a public utility is an organization of humans who want to be helpful—not a corporate entity which has "The Public Be Damned" as its basic creed.

## **TO SELL OR NOT TO SELL—APPLIANCES**

Here is a comprehensive, readable analysis of the experiences of 33 large utility companies which have sold or are selling appliances direct to their customers. Author David Markstein has done an unbiased, workmanlike job in setting forth views of the utility companies, as well as those of retail appliance dealers, who have felt the gas and electric companies should confine their efforts strictly to the distribution of their services, leaving the sale of appliances to the established retailer.



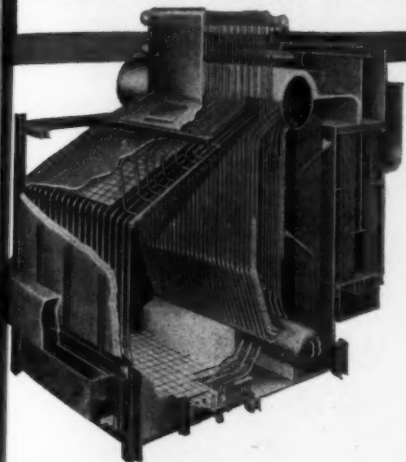
**Also . . .** *Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.*



## BOILERS to Meet YOUR Needs

**S**PRINGFIELD builds boilers in a wide variety of sizes and types to meet modern utility plant needs. Springfield installations include outstanding high pressure, high temperature designs in large central stations as well as smaller units for outlying stations and standby service. Springfield service includes the design,

fabrication, and erection of units complete with firing, draft, and control equipment—all taken under a "Single Responsibility" contract. We will be glad to submit proposals covering your requirements. Write to our main office in Springfield, or see your nearest Springfield representative. Descriptive literature on request.



### • BENT TUBE BOILERS

For maximum efficiency in minimum space! Carefully balanced Springfield designs built to give extra values in performance and dependability. Water cooled furnace. Gas flow distributed uniformly across width of unit. Dry steam. Minimum superheat variation over wide load range. Built in any capacity from 10,000 lbs. up.

### • STRAIGHT TUBE BOILERS

A design preferred by many engineers. Big overload capacity; quick response to loads. High availability; less outage. Every quality feature you want in a boiler. Specially designed for capacities to 450,000 lbs. per hour and higher. Springfield patented center water wall construction available for large units.

### • TYPE M STANDARDIZED BOILERS

Standardized for quicker delivery ...lower cost. 12 sizes to choose from, ranging from 6,000 to 17,000 lbs. per hour. Built like a "BIG PLANT" boiler—for the smaller plants! Water-cooled furnaces—all of Springfield's finest quality features.



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# Remarkable Remarks

*"There never was in the world two opinions alike."*

—MONTAIGNE

WALTER S. HALLANAN  
*Chairman, National Petroleum  
Council.*

"American corporations have grown big because there were big jobs to be done."

CHARLES A. HALLECK  
*U. S. Representative from  
Indiana.*

"Existing taxes are already so high they are robbing our economic system of its vitality."

G. C. NEFF  
*President, Wisconsin Power  
& Light Company.*

"The solution to this encroachment of Socialism lies in the right to vote, which we still have in this country."

MARC F. BRAECKEL  
*President, Richfield Oil  
Corporation.*

"We have thrived on competition. It is from our unfettered competitive system that America gains impulse for progress."

K. T. KELLER  
*President, Chrysler Corporation.*

"Only prosperous and efficient business can convince the millions of good citizens that business works for the advancement of the nation."

JOHN FOSTER DULLES  
*Former U. S. Senator from  
New York.*

"If Communism and Fascism are hateful, because of the consequences of their godlessness, it is equally true that they can be successfully resisted only by societies imbued with strong spiritual convictions."

ALBEN W. BARKLEY  
*Vice President of the United  
States.*

"As much as we wish for the good old simple days, the complexity of our lives has created an interdependence among all our citizens. This has created a necessity for the guidance of government in the problems that beset our people."

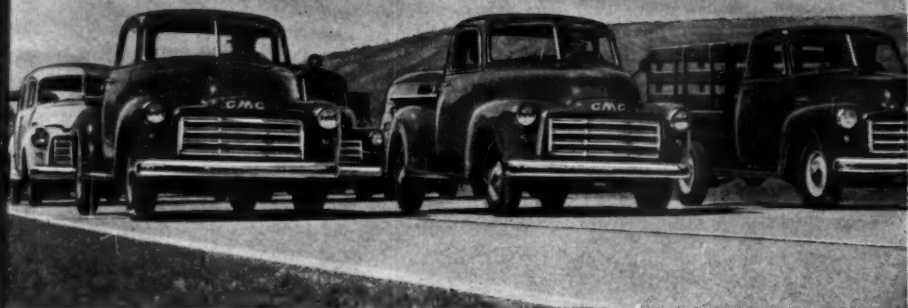
DOROTHY THOMPSON  
*Columnist.*

"There is no such thing as a 'free' government service, and the question is simply how much of the money Americans earn they wish to spend according to their own estimates of their needs, and how much they wish to spend according to government dictates."

GWILYM A. PRICE  
*President, Westinghouse Electric  
Corporation.*

"The Federal government's increasing drive for more controls over our economy must be curbed to avoid traveling down the road toward socialist planned economy. If we continue down that road, we will be the last to travel it and there will be no other nation standing by with its version of the Marshall Plan to bail us out."

# Out Ahead Again FOR 1950!



## New Power and New Features in Light and Medium Duty Models New "Weight-Saving" Diesel Tractors • New Middle-Weight Six-Wheelers

Once again GMC leads the truck transport parade . . . once again GMC introduces improvements in design . . . once again GMC widens the scope of truck performance.

All along the line new 1950 GMCs lead the way. New camshafts, valves and manifolds step up the power of light-medium models. Wider seats, more headroom and improved seating increase their cab comfort. And there are new chassis features, including new hydraulic and optional air brakes on 2½-ton

models, new front springs and airplane-type shock absorbers on light trucks.

The new models combine to offer GMC power, dependability and economy to many more operators. There's a new 1½-ton "280" . . . a new heavy duty 2½-ton "470" . . . two new "400" and "620" six-wheelers . . . two new "weight-saving" Diesel-powered tractors built to handle maximum legal payloads in the 45,000-55,000 pound weight range. See your nearest GMC dealer for complete information.

Public utility operators will find a model ideally suited to their hauling needs in the GMC line which ranges from 4,600 pounds GVW to more than 90,000 pounds GCW. For example, the new "280s" of 11,000 GVW, the new "470s" of 20,000 pounds and the new "400" and "620" six-wheelers of 24,000-32,000 pounds are especially well adapted to private enterprise or corporate government transport work.

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## REMARKABLE REMARKS—(Continued)

EDITORIAL STATEMENT  
*The (London) Economist.*

"Any Labor government that knew which side its bread was buttered on would want a rise in total profits. . . . High profits and high wages are (inflation apart) both of them signs of high activity. They are at once the means to, and the product of, a high standard of living."

HOLGAR J. JOHNSON  
*President, Institute of Life Insurance.*

"There is no business which is more competitive or which operates more completely in the full public view than does the life insurance business. [For years] it has been regulated in the public interest by the insurance departments in every state and in the District of Columbia."

ERIC SMITH  
*Chairman, National Provincial Bank (London).*

"[Basic industries which have come under government ownership are controlled largely by] those whose political survival is dependent on the compulsory purchase by the taxpayer of the good will of the people engaged in these industries. It is equally clear that the technique of running nationalized industry has still to be learned."

EDITORIAL STATEMENT  
*The Wall Street Journal.*

"We submit that before it undertakes to 'balance' the national economy by managing it, the government should do its utmost to permit the free enterprise economy to balance itself. If the unnecessary and politically unwholesome hindrances to its working which government has imposed were removed, it would assuredly survive in full vigor."

SPRUILLE BRADEN  
*Former Assistant Secretary of State.*

"Neither the United States government nor any other possesses any great store of scientific and industrial knowledge, experience, and techniques. Nor is any officialdom, disrespectful of how carefully selected and wise it may be, competent to master and direct all the intricate and powerful economic forces of this nation and still less of the world."

ROBERT A. TAFT  
*U. S. Senator from Ohio.*

"[The President's welfare legislation demands] the complete socializing of all welfare on a cradle-to-the-grave basis that goes further than anything they have been able to get in socialistic England. . . . Either the people will rise up and throw it all out—which is my sincere hope—or we will get to the point of a totalitarian government."

L. R. BOULWARE  
*Vice president, General Electric Company.*

"If businessmen or other citizens want their ideas followed by the public servants, instructions to that effect must come clearly and effectively from a majority of the folks at home. Such instructions that the businessmen in general feel to be proper can only come as the result of correction of misinformation and sound reeducation back at the grass roots. This is not only the businessman's biggest job today, it is also the area of his greatest past and present neglect of duty."

## A signature of quality

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prefabricated  
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You're looking at a man whose "signature" assures quality welding of piping. He's a Grinnell welder and, as every Grinnell welder, he is qualified by Grinnell according to a procedure which conforms to A.S.M.E. Boiler Construction Code, Section 9. After qualifying, he is given a number which he "signs" adjacent to each weld he makes.

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for metallurgical research and testing, comprehensive knowledge of state laws and industry codes, and a complete familiarity with insurance company requirements for fabricated piping.

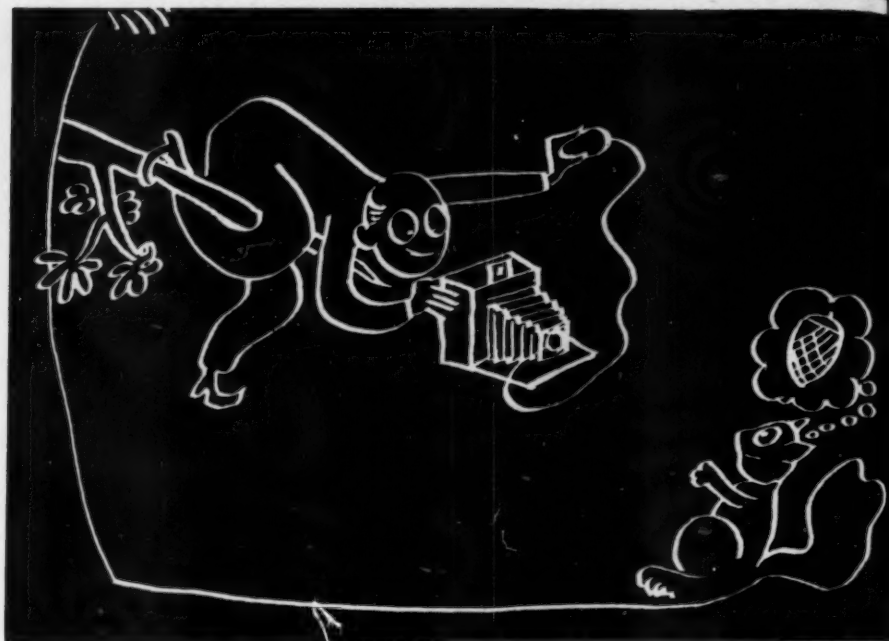
The fabrication of piping for today's high pressure, high temperature or corrosive services is a job for experts. It's a job for Grinnell prefabricating plants because Grinnell has the modern equipment and methods, and the skilled personnel which enable them to assume total responsibility for the job.



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To get, and keep up-to-date pictures of usage data, call regularly on the Recording and Statistical Corporation.

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200,000 of your bills can be analyzed in one day by the remarkable Bill Frequency Analyzer—an electro-mechanical device developed especially for this purpose. Consequently, the cost to you is but a small fraction of a cent per item.

### Get complete data

"The One Step Method of Bill Analysis" is an informative booklet that tells you more about this accurate and economical method of compiling consumers' usage data. We will gladly send it to you upon request.



This Bill Frequency Analyzer—developed especially for utility usage data—automatically classifies and adds in 300 registers in one step.

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January 10, 1950

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## **KINNEAR ROLLING FIRE DOORS**



Ask the men who *fight* fires—and the men who investigate fire losses. They have seen how effectively Kinnear Rolling Fire Doors block the spread of flames at doorways, corridors, elevator shafts and other openings. They have seen them literally trap fires within small areas . . . save whole wings or sections of buildings from loss . . . protect buildings erected wall-to-wall beside structures totally demolished by fire. And records show that in at least 40 per cent of all major fires, in an average year, lack of adequate fire-door protection contributes to the heavy fire losses.

You can be sure of protection at all windows, doorways, and other openings with "AKBAR" Steel Rolling Fire Doors, an



exclusive, time-tested Kinnear product labeled by Underwriters' Laboratories Inc. In many cases, they've paid for themselves in two or three years, through reduced insurance rates.

These doors remain out of the way, overhead, when not in use. They may even be concealed in the wall, above the lintel. But when fire threatens, their exclusive operating features assure quick, automatic, positive, safe closure.

Kinnear "Akbar" Rolling Fire Doors are highly efficient in daily service use, too, and may be equipped for convenient motor operation if desired. Available in any size, for any type of opening. Write for complete information on Kinnear Rolling Fire Doors.

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### DODGE "Job-Rated" TRUCKS

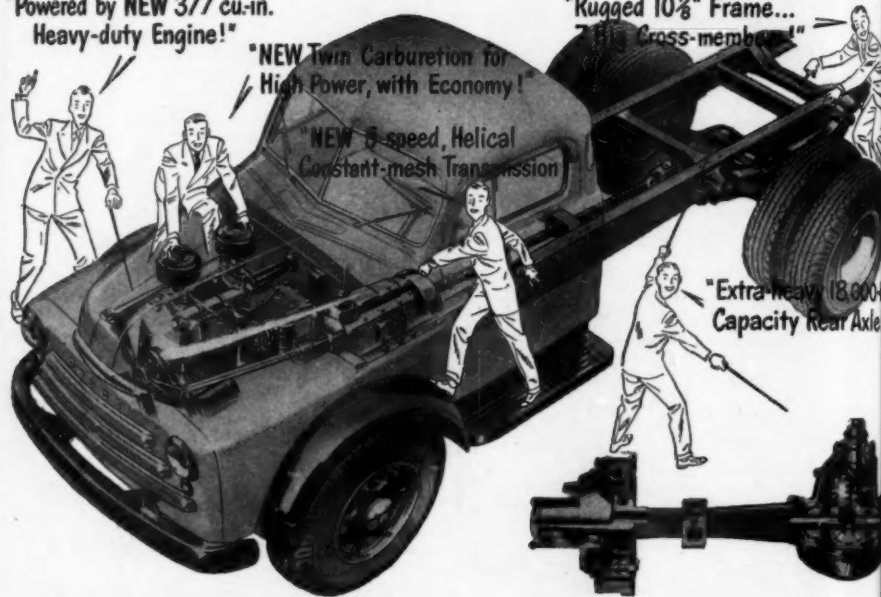
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"Extra-heavy 18,000-  
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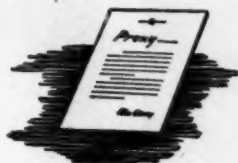
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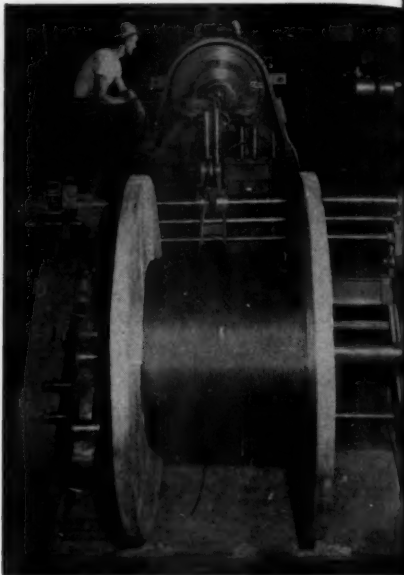
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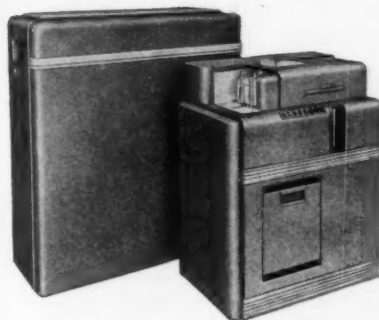


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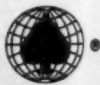
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# Utilities Almanack



## JANUARY



19	T <sup>h</sup>	† Southeastern Electric Exchange, begins industrial relations conference, New Orleans, La., 1950. 
20	F	† Southern Gas Association begins residential sales conference, Little Rock, Ark., 1950.
21	S <sup>a</sup>	† Radio Correspondents Association will hold annual dinner, Washington, D. C., Feb. 4, 1950.
22	S	† Missouri Valley Electric Association will hold power sales conference, Kansas City, Mo., Feb. 9, 10, 1950.
23	M	† American Society of Heating and Ventilating Engineers begins meeting, Dallas, Tex., 1950.
24	T <sup>u</sup>	† Academy of Television Arts and Sciences presents annual awards for highest television achievements, Hollywood, Cal., 1950.
25	W	† Southern Gas Association will hold annual customer accounting meeting, Tulsa, Okla., Feb. 10, 1950. 
26	T <sup>h</sup>	† Edison Electric Institute, Electrical Equipment Committee, will hold meeting, Cincinnati, Ohio, Feb. 13, 14, 1950.
27	F	† Midwest Industrial Gas Council begins annual meeting, Chicago, Ill., 1950. † Pennsylvania Gas Association begins sales meeting, Philadelphia, Pa., 1950.
28	S <sup>a</sup>	† American Society for Testing Materials will hold committee week and spring meeting, Pittsburgh, Pa., Feb. 27-Mar. 3, 1950.
29	S	† National Rural Electrification Association will hold annual convention, Chicago, Ill., Mar. 6-9, 1950.
30	M	† American Institute of Electrical Engineers begins winter general meeting, New York, N. Y., 1950.
31	T <sup>u</sup>	† Texas Telephone Association will hold annual convention, San Antonio, Tex., Mar. 6-8, 1950.



## FEBRUARY



1	W	† National Association of Radio Broadcast Artists begins conference, Havana, Cuba, 1950.
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# Bringing Power to the Farm



Courtesy, Wisconsin Power & Light Company  
M. J. R. M.

# Public Utilities

## *FORTNIGHTLY*

VOL. XLV, No. 2



JANUARY 19, 1950

## How to Get the Small Investor Interested

With the need for more and more financing as pressing as ever, the challenge of broadening the base of stock ownership stands as a main problem for industry.

By LARSTON D. FARRAR\*

SCHOLARS who have pondered the best way to bring home to the average American a new awareness of the workings of the enterprise system, have long weighed the problem of creating a better understanding of security ownership on the part of the folks back home—especially in rural and small communities.

Now, that thought has seeped into the minds and conscience of the security dealers and others—men whose

joint efforts make up what is known in this country very loosely and collectively as "Wall Street." The practical salesmen of American stocks are going out into the highways and hedges. They are seeking to diffuse the ownership of stocks and bonds of industry among the butcher, the baker, and the candlestick makers. They are after the farmer, sheet-metal worker, and millions of other plain citizens in a thousand-and-one occupations.

Management is coöperating with this move. The executives of many

\*For personal note, see "Pages with the Editors."

## PUBLIC UTILITIES FORTNIGHTLY

companies are experimenting with unique promotional devices to dramatize both *how* they do business and *why* more Americans should invest money in business and industry.

Pillsbury Mills, Inc., 88-year-old flour milling concern, recently broadcast its annual stockholders' meeting over a nation-wide radio hookup. This, it is believed, was the first time in history that a corporation's annual meeting thus was opened to the public by radio.

"Business and its methods are everybody's business," said Philip W. Pillsbury, president of the company. "We believe it is management's obligation to make it public because the growth and success of any modern business depend on the public."

This, it was noted by more than one left-wing commentator, was a far cry from the famous expression of a one-time railroad magnate who exclaimed: "The public be damned!"

Likewise, General Mills, Inc., which coincidentally is in the same general food products field as Pillsbury, announced recently that it soon will attempt to enroll *all* its employees into the stockholder ranks of its company.

**H**ARRY A. BULLIS, chairman of the board, told the annual meeting of the company's directors that a plan now is being drafted and will be presented at the forthcoming meeting, or at a special session, to carry this plan through to completion.

Mr. Bullis emphasized that stock ownership must be more widespread so as to give small investors a definite stake in the American economy, as well as to tap new sources of funds for business.

"Our contemplated employee stock purchase plan is only one facet of the general problem before us—the problem of securing more partners in American industry," said Mr. Bullis. "To obtain more partners, business should find ways of interesting more small investors in its securities, especially stocks."

He asserted that the U. S. has \$173 billion of liquid assets and \$18 billion of annual savings, a good share of which could well be invested in corporate enterprise to create "new productivity, with higher living standards for our nation as a whole."

"Common misunderstandings concerning business profits and operations must be combated faithfully with the facts."

E. I. du Pont de Nemours & Company, Inc., one of the world's largest corporations, has fallen into line with the general trend toward "wooing" the common man investor. That company recently planned a promotion around its 100,000th investor, who turned out to be a grade schoolteacher in Iliac, New York. She was Miss Alice E. Byrnes, who became du Pont's 100,000th stockholder by purchasing four common shares of the company during August. She was given prizes and feted by the company for a week so that officials might reveal their deep interest in all such small investors.

But the security dealers themselves have gone perhaps further than management in striving to broaden the base of ownership in American industry in recent months. It is a trend that seems certain to spread until untold millions of new investors have known the benefits and responsibilities of such ownership.



## HOW TO GET THE SMALL INVESTOR INTERESTED

AMID the sideshow atmosphere of the Morris County Fair at Troy Hills, New Jersey, Reynolds & Company, member of the New York Stock Exchange, put on a unique exhibit to demonstrate to plain folks how stock ownership makes the wheels of industry go around. The theme of the display centered on a tie-in of the various products of companies whose stocks were listed on New York exchanges. Part of it consisted of a reproduction of a financial page from a daily newspaper, showing the daily quotation of securities, and stating: "This is your stake in America."

The exhibit also included a roster of 196 common stocks listed on the "big board" which have paid cash dividends every year for 25 to 101 years and currently are yielding from 3 to 13 per cent.

In the early summer of 1949, Ira Haupt & Co., another member firm of the New York Stock Exchange, created an even better impression among the average people of New York city by running an advertisement in *The Daily News*, a leading tabloid catering to the Gotham masses. The company invites Joe Doakes to buy "a share in some of America's leading industries," by using his savings to purchase stock in an open-end investment trust.

*The Daily News*, which observed quite a bit of Wall Street reaction to the Haupt ad, said that the firm was "foolish like a fox."

In August, the *News* spoke editorially on this point:

Mr. Doakes-Sweeney, it appears, is the capitalist who has the really big and important purchasing power these days. About 78,000,000 of these citizens have life insurance policies, and almost 60,000,000 have savings accounts. United States bonds are held by some 55 per cent of our people. The money now deposited in all forms of savings accumulations amounts to a good deal more than twice the 1929 total.

IN case anyone had the rash idea that maybe all these Americans are buying common stocks, the Federal Reserve Board has offered evidence to the contrary. The FRB says that the total of Americans who own common stocks and bonds, or other commercial and industrial securities, is no more than 9,000,000. This is quite a contrast to the 60,000,000 owners of savings accounts and the 78,000,000 life insurance policyholders.

The FRB in 1948 made a survey of consumer finances and learned that only 5 per cent of those with annual incomes of more than \$2,000 approved of buying securities. Sixty-two per cent were definitely against such a prac-



"It has been pointed out many times that, under present conditions, many potential investors have confidence in the management of a local industry. They do not seem to carry their interest in stocks beyond the region in which they live. An investment house has little difficulty in distributing the common stocks of a good sound local utility. But when it attempts to sell the stock of an equally good utility in other areas, it meets apathy if not buyer resistance."

## PUBLIC UTILITIES FORTNIGHTLY

tice. Most surprising—of those with incomes of more than \$5,000, 65 per cent owned no securities of any kind except government bonds.

The two big reasons most Americans (who could buy securities) give for not buying are (1) that they believe common stocks are a gamble and (2) that they are not familiar with such stocks.

To this we must add the fact that American industry is becoming more and more desperately in need of venture capital. That is why important elements in financial and industrial circles have become so interested in the man on the street and his cousin in the corn field! Also, in their wives, daughters, mothers, and girl friends.

For many months Merrill Lynch, Pierce, Fenner & Beane has carried on an extensive newspaper advertising campaign to plug its free booklets, "How to Read a Financial Statement," and "How to Invest." The same firm also has experimented with radio and television courses. And its free investment courses—for women only—are sweeping the country.

This experimental course for women began in San Francisco. Ferdinand C. Smith, the firm's San Francisco partner who originated the idea, expected several dozen women, at most, to enroll for a free 8-week course. He arranged a meeting place seating fifty persons and published a small, dignified ad on the financial pages advertising the project.

**T**HE newspapers hardly had been published when the stockbroker's telephones began to ring. Letters came in thick and fast.

A larger hall was rented and tickets

issued to 550 "students." Even so, on opening night several hundred more women appeared and demanded admission. Another 1,000 went on the waiting list. What is more, those who enrolled attended faithfully and showed continuing interest in the course.

National officers of the firm were frankly amazed. By midsummer of 1949, Merrill Lynch branch offices in 37 cities proceeded to sponsor such courses—with equally good results. The company now is planning courses in all 96 cities in which it operates.

It is well known, of course, that women own 70 per cent of the wealth of America. They do about two-thirds of all the spending. But for years the financial world had acted on the supposition that most of them left the financial discussion strictly alone and would not be interested in it even in popularized form.

In running its schools for women only, Merrill Lynch emphasizes the "how" of investing rather than the not "what to buy" slant. No "hot tips" are offered. The first advice given is somewhat on the negative side—don't invest unless you have something left after balancing your personal budget. This budget should allow for insurance protection and an emergency cash reserve.

**A**LTHOUGH only a few of the 15,281 women who took the courses earlier in 1949 opened brokerage accounts immediately, there wasn't any doubt but what a good educational groundwork was laid for future investors among the students. Many asked questions which indicated they hoped or planned to invest from \$1,000 up to \$30,000—and no doubt many will do

## HOW TO GET THE SMALL INVESTOR INTERESTED



### Atomizing Stock Ownership

**"THE** practical salesmen of American stocks are going out into the highways and hedges. They are seeking to diffuse the ownership of stocks and bonds of industry among the butcher, the baker, and the candlestick makers. They are after the farmer, sheet-metal worker, and millions of other plain citizens in a thousand-and-one occupations. Management is coöperating with this move."

so as time goes on. At any rate the ice has been broken and they are no longer complete strangers to the idea.

Bache & Co. has also joined the trend. It has explained investment fundamentals over television. More than a dozen firms now are conducting free classes in many U. S. cities. These classes—some held right in the board rooms—employ documentary films as well as trained speakers. In their newspaper advertising, several firms have gained attention by plugging stock ownership of companies with whose local operations readers already are very familiar.

In one city, a member firm of the New York Stock Exchange expected an admission and attendance to its exhibit and show of some 2,000. It actually received requests from some 20,000 persons.

Several companies, in addition to these named, have put up booths at house-and-garden shows. Prescott &

Co. handed out at least 50,000 pamphlets at the Cleveland flower show last spring, and received queries from more than 1,000 prospects as a result.

Merrill Lynch, perhaps the pace-setter in this contest to break into the middle income market for stocks and bonds, put on a widely publicized exhibit at the Iowa State Fair in late summer.

**SUCH** exhibits often feature companies which operate locally and with which the sight-seer is bound to be familiar. The literature given out is written in simple, nontechnical language, following the old New York *Daily News* idea that if you "Tell it to Sweeney—the Stuyvesants will understand."

It has been pointed out many times that, under present conditions, many potential investors have confidence in the management of a local industry. They do not seem to carry their interest

## PUBLIC UTILITIES FORTNIGHTLY

in stocks beyond the region in which they live. An investment house has little difficulty in distributing the common stocks of a good sound local utility. But when it attempts to sell the stock of an equally good utility in other areas, it meets apathy if not buyer resistance. Understandably, a good many Americans consider that utilities, serving other parts of the nation, are possibly in the speculative category. The problem thus boils down to one of education—the right kind.

In this education, the New York Stock Exchange itself is the recognized leader of important brokerage houses. It is seeking through intelligent, long-range advertising to enlarge the understanding of workers, farmers, small businessmen, and others who never have formed the habit of investing in securities. In a broad program, its officials welcome the cooperation of every institution and individual interested in contributing to economic progress.

The response so far is encouraging. Although the educational program has not led to any great wave of business, brokerage houses are convinced it is a good, long-range investment. There is inevitably a time lag between waking up new prospect interest, and active selling. One house reports requests for about 480,000 of its pamphlets, and many firms have reported their investment classes at attendance highs, hot weather notwithstanding.

The New York Stock Exchange is backing up the program of individual brokers with its \$500,000 series of ads in both national magazines and in 430 newspapers. The advertisements reveal, in simple monosyllable picture-magazine style, the financial worth of real-life families with common stock

investments. Pointing out the values of home ownership, government bonds, and savings accounts, the advertisements carry as their theme for "extra funds" the following: "Invest wisely . . . through a member firm of the New York Stock Exchange." A list of Big Board stocks on which dividends have been paid out continuously for 25 to 101 years is offered. More than 250,000 copies of this list have been distributed so far.

**E**MIL SCHRAMM, president of the New York Stock Exchange, is the man who has spearheaded the "share the shares with the medium-sized income group" idea. In an exclusive statement for PUBLIC UTILITIES FORTNIGHTLY about the program, he had this to say:

There have been periods in the economic history of mankind when the wise investor, both large and small, could advantageously seek security of principal with income and price appreciation as more or less secondary objectives. That would have been true during the greater part of the Victorian era.

Since 1939, however, we have had the exact opposite. The cost of living has mounted rapidly and those who placed their funds in high-grade bonds are drawing out much less purchasing power than they invested.

In 1939, a Ford convertible, with heater, radio, and other extras, could be purchased for about \$1,000. Instead of buying a new Ford, however, let us say that the prospective purchaser put his \$1,000 in the savings bank and saw it grow through compound interest to about \$1,280 in 1949. Then he withdrew his savings to buy the Ford, but found that the price had increased from \$950 to \$2,350. In 1939, he could have bought a whole car for his principal; in 1949, his principal *and* ten

## HOW TO GET THE SMALL INVESTOR INTERESTED

years' interest bought only half a car.

The above illustration reveals the fallacy of setting safety of principal as one's sole investment goal. Consequently, the New York Stock Exchange believes that more people, in a time like the present, if they can afford to do so, should assume the risks inherent in the ownership of good common stocks—not in an unplanned, confused way, but with benefit of facts and analysis. We are urging the small investor to plan a 4-part program, a savings account to meet emergencies, adequate life insurance, home ownership where conditions make it advisable, and investments in securities.

**W**E believe that in so doing an investor will become a beneficiary in, and a benefactor of, the American way of life, and will also share in the rewards of successful enterprise. If it is accepted that the owner of a savings account, or a life insurance policy, or a savings bond, is a capitalist, how much more effective a capitalist is a man who safeguards the American economy by becoming the coowner of a successful company and the source of essential equity capital.

To meet the needs of this new investing public the New York Stock Exchange has embarked upon a program designed to broaden the investor base of American industry. There are many ways to describe our new approach. Perhaps the best way is to say that it is creating new thought patterns in the mind of the American investor

in regard to the stock market. Instead of thinking of the stock market with an apprehension born of the 1929 panic, he will think of it as a place where money is mobilized and put to work to produce jobs and create opportunities and to give the investor income and capital gain.

We are pointing out advantages of long-term investment in income-producing common stocks and bringing these benefits to the attention of people who have accumulated liquid capital since the war, but who have not, previously, formed the habit of investment.

**I**N its leaflet distributed to those who request information about dividend-paying stocks, the New York Stock Exchange starts with what it calls the "simple facts." It defines common stocks, tells how dividends are paid by companies, explains the risks inherent in stock ownership. It also explains how it is possible for business tides to affect both the value of stock and the size of dividends.

Under the heading of "Who Are Buyers of Common Stocks?" the Exchange declares:

Federal income tax studies show that about one-third of all dividend payments go to persons with yearly incomes of less than \$5,000. The 1948 report of the American Telephone and Telegraph Company disclosed that holders of one to five shares of the

**Q** "If it is accepted that the owner of a savings account, or a life insurance policy, or a savings bond, is a capitalist, how much more effective a capitalist is a man who safeguards the American economy by becoming the coowner of a successful company and the source of essential equity capital."



## PUBLIC UTILITIES FORTNIGHTLY

company's stock constituted 27.4 per cent of all AT&T share owners. Experience shows that average investors—meaning persons of moderate resources—comprise mainly those who buy common stock with surplus income, after emergency reserves of savings are provided for and adequate insurance has been acquired.

If Rip Van Winkle had entered upon his 20-year sleep in the spring of 1929 at the corner of Wall and Broad streets, in New York, where the New York Stock Exchange is located, and awakened in the spring of 1949, his first comment likely would have been: "How things have changed! Even the customers are different!" In the twenties, many of those who bought stocks were not paying much attention to earnings or dividends. They wanted *appreciation*.

There was so little interest in underlying values that some stock buyers did not know "which companies got how much for doing what." There is the story of the broker of those days who received an order to buy 500 shares of Seaboard Airline, a railroad, accompanied by this comment: "I think there's a great future in these airplane stocks."

**A**LMOST everyone in the "smart set" was in the market eager to pick up a few hundred dollars for a vacation, or a couple thousand for a new car, by taking a flier in stocks. Asked about the market in the summer of '29, one wise investment man declared: "I don't know what will happen, but I'm sure this sort of thing can't go on. The good Lord never intended for as many people to make money trading in stocks as are doing it today." He was so right.

By the autumn of that year, the

party had seen its most hilarious moments.

But it's different today. Almost all of the stock "tips" and rumors have disappeared. There are a few old-style "traders" left, but they base their operations on shrewd analysis—as profound as that which governs the operations in the engineering field, although necessarily involving certain intangible human and economic factors. It is difficult today to find an investment house which is not interested primarily in the small investor and how to attract more of them.

One of the larger member firms of the Exchange found in a recent analysis of transactions that more than half of its customers had incomes of \$7,500 or less, and that 49.9 per cent of the deals involved sums of less than \$1,000.

The man of great wealth, although a good customer if you can find him, primarily is not interested in trading actively in common stocks. The steeply progressive income tax encourages him to avoid risk and to place a large part of his wealth in tax-exempt bonds. Many successful dealers of 1949 largely ignore the rich in their merchandising activities and direct their appeal toward prospects of moderate income.

**T**HE rich man's burden—high taxes—has created the poor man's opportunity. The generous dividends now available from well-established companies are attractive to those who can count their blessings and keep them to a substantial degree. To retain most of these extra dividend dollars, one must, perforce, be restricted to a modest income. To the man who earns \$100,000 a year, a return on a common stock of



## HOW TO GET THE SMALL INVESTOR INTERESTED



### That "Wall Street" Bogey

**"T**HOSE who think of the New York Stock Exchange as 'idle rich' with expensive tastes and bankers' hours should revise their conceptions. A member of the Exchange today frequently is a businessman with an investment comparable to that of the owner of a large store or a small manufacturing company. He drives a medium-priced car. If successful, he is a hard worker devoting his spare time to thinking of ways in which he can increase his firm's revenue."

8½ per cent means no more in "take home" pay than a tax-exempt bond paying 2½ per cent. He is likely to say, "Why should I take the risk?"

The best customers of the stock market in 1929 were those in the high-income brackets. National income in that feverish year was considerably less than half what it is now. But there were 500 people who earned \$1,000,000 or more. Taxes were much lower—so much lower that the man who received \$100,000 a year could obtain a 50 per cent higher yield on his funds than he can today—this despite the fact that stocks were selling at nearly thirty times dividends. On the average, they are selling at less than seventeen times dividends today.

Wall Street, 1949, contrasts vividly with Wall Street, 1929, in many other ways, some of which reflect the eco-

nomic and social pressures of the progressive income tax, and others the protective safeguards that have been established.

In speaking of today's market in contrast with that of the twenties, a veteran investment counselor says:

"The ticker is telling the truth these days. Prices may be high, they may be low—depending on whether there are more buyers than sellers—but wherever they stand, prices reflect the judgment of many thousands of people."

**W**Henever the market movement in any stock gives indication of irregularity, circumstances are investigated. As a disciplinary body, the Exchange has jurisdiction only over its members, allied members, and employees of member firms. The Exchange cannot take direct action

## PUBLIC UTILITIES FORTNIGHTLY

against a customer of a member firm who carries on questionable trading practices. What the Exchange can do, and does do, is to warn the firm that the conduct of a certain account is undesirable. The firm then either makes the customer correct the improper conditions in his account, or it refuses to handle the account.

Board rooms, where customers watch the ticker, are less important now than they were in 1929. Through a national survey, one large security house uncovered the small volume of orders that originated in board rooms and materially reduced the space allotted to them in branch offices. It was found that most of the firm's revenue came in over the telephone or by mail from people who have to work.

Today's customers are more serious. Contrasted with the hysterical speculators who crowded around tickers in 1929, there are adult education groups learning the principles of sound investment, in courses sponsored by the Exchange itself.

THOSE who think of the New York Stock Exchange as "idle rich" with expensive tastes and bankers' hours should revise their conceptions. A member of the Exchange today frequently is a businessman with an investment comparable to that of the owner of a large store or a small manufacturing company. He drives a medium-priced car. If successful, he is a hard worker devoting his spare time to thinking of ways in which he can increase his firm's revenue. Lean years and intensive competition have eliminated the man with the dilettante attitude. Those who succeed today as

members of the New York Stock Exchange have, on the whole, qualities similar to those which would make for success in any business.

How has the ownership of American industry been affected by this change in the attraction of common stocks? Here is an example based on 50 representative American companies, listed on the New York Stock Exchange: In 1929, these companies had 1,648,000 stockholders. Today, they have more than 4,000,000. Here is another example based on a recent estimate by the Securities and Exchange Commission: Of 13,810,000 separate shareholdings in 710 widely owned companies, 54 per cent have a value of \$500 or less, and less than 10 per cent have a value of \$5,000 or more. At least six of the largest companies—American Telephone and Telegraph, United States Steel, Pennsylvania Railroad, General Motors, and Swift Packing Company—have more stockholders than workers. AT&T stockholders exceed 700,000—more than the combined population of Nevada, Wyoming, and Delaware. As far as wealth goes, most of the stockholders own 50 shares or less. Only rarely does one stockholder own as much as one per cent of a company's total stock offering.

Stockholders, in other words, are just ordinary folks, many with incomes less than those of the skilled workers in big industrial plants. Increasing the number of these plain Joes (and Joans) through intelligent education seems to be the No. 1 aim today of the alert securities salesman—whether he works Wall Street or Main Street.



## Is Texas Running Dry?

*Man's oldest and most vital utility service—water supply—is in danger of serious impairment in the nation's largest state, as a result of heavy withdrawals, increasing population, and industrial usage. Here is a frank appraisal of the Texas water problem, and proposed solution for it—a problem which is spreading to other areas in the Southwest.*

By ERNEST R. ABRAMS\*

THE population of Texas increased 287 per cent between 1890 and 1940, but water demands of the state rose over 7,000 per cent during the same 50-year period. Moreover, population growth and industrial expansion during the war and postwar years have increased the water requirements of Texas at an even faster pace than before 1940. While increased use of water has lowered ground-water levels in some areas, Texas as a whole will not run short of water and lack of it will put no ceiling over industrial expansion or population growth.

The major water trouble in Texas arises from the erratic nature of its rainfall. It is not unusual in some parts of the state for more water to fall within twenty-four hours than the

average rainfall of a specific area in a year.

This is strikingly evidenced by the storm of June 23, 24, 1948, when, in parts of Edwards, Kinney, and Val Verde counties in the southwestern portion of the state, 24 inches or more of rain fell in nineteen hours. Nor is such heavy precipitation a rare occurrence in much of Texas.

Probably the greatest amount of rain to fall in twenty-four hours, for which there is a reliable record, occurred in September, 1921, at Thrall in the High Plains area, where it totaled 38.2 inches. If the period of time be stretched a bit, the record goes to Taylor, about 25 miles northeast of Austin, where, in 1921, 23 inches of rain fell in twenty-four hours and 39 inches in thirty-six hours. Rainfall of the greatest intensity was recorded near D'Hanis, some 50 miles west of

\*For personal note, see "Pages with the Editors."

## PUBLIC UTILITIES FORTNIGHTLY

San Antonio, when, on May 31, 1935, over 20 inches fell in three hours.

Unfortunately, the foregoing are examples of violent storms and not an indication of annual average precipitation. Climatic conditions in Texas vary from the humid eastern section to the arid western portion and from the subtropical climate of southern Texas to the area of severe winters in the northern Panhandle. The amount of annual rainfall diminishes at a fairly uniform rate from the eastern border of the state to its western tip, falling from an annual average of 55 inches in the Beaumont area to 8 inches at El Paso. In addition, the seasonal distribution of rainfall varies between different areas within the state. Along the Gulf coast from Beaumont to Matagorda bay, maximum precipitation occurs during July and August. In eastern Texas above Beaumont, it is concentrated in the winter and spring months. In the High Plains area and the far western part of the state, the heaviest rains fall during the middle or late summer.

**B**ECAUSE the flow of streams varies directly with changes in the volume of rainfall on the watershed, the concentration of precipitation in relatively short periods, frequently results in the flooding of streams and the wasting of a large amount of water which is badly needed at other times when rainfall is light and stream flow is sharply reduced. For example, the little West Nueces river in southwest Texas produced a peak discharge of 580,000 second feet in 1935, which is greater than the highest flood flow ever recorded on the Ohio river at Pittsburgh. Yet, later in the year,

stream flow on the West Nueces was practically nonexistent.

Rain falling on Texas is distributed into three main channels. Some of it runs off immediately and is carried away by streams and rivers. Another portion is absorbed by the upper layers of earth, where it is available for plant growth. And a small amount trickles far below the surface to become a part of the ground-water supply. It is the steady decline in the level of ground water in some sections of Texas that has led certain commentators to view the future of the state with alarm.

**M**OST Texas communities secure their water supplies from ground sources. In 1945, 681 of the 837 cities and towns dependent upon public water supply systems were drawing water entirely from the ground and were withdrawing a total daily average of 270,000,000 gallons. According to the Texas Board of Water Engineers, the amount of water taken from ground sources for public use in the Houston area alone rose from 38,000,000 gallons a day in 1934 to 64,000,000 gallons daily in 1945 and, at Galveston, the daily withdrawal increased from 4,600,000 gallons in 1935 to 10,300,000 gallons in 1945. The remaining 116 Texas communities dependent upon public water supply systems, including several of the larger metropolitan areas, secure all or a major portion of their supplies from surface sources. Although the volume of water removed from flowing streams for municipal use is not known, the Texas Board of Water Engineers has issued permits for the appropriation of 6,942,000 acre-feet annually, or the

## IS TEXAS RUNNING DRY?

equivalent of 6,197,000,000 gallons a day, for combined municipal and industrial use.

Since industrial plants in Texas, securing their water supplies from the ground, doubled their consumption between 1934 and 1945, and were taking 289,000,000 gallons a day from this source in the latter year, they may be held directly responsible, in large part, for the decline in ground-water levels in many parts of the state. Furthermore, continued industrial expansion has led to the concentration of additional workers in cities and towns, thereby indirectly increasing the amount of water required for public use and necessitating an expansion of municipal supplies.

SOME insight into the impact of industrial expansion on the water supplies of Texas may be gained from the water requirements of a few established plants in recent years. A paper mill in the Houston area requires 20,000,000 gallons of water per day and a nylon plant near Orange needs 30,000,000 gallons daily. An iron smelter in east Texas uses 17,000,000 gallons daily and, if the Reconstruction Finance Corporation had not turned down an application for a loan to build a steel mill in conjunction with the smelter, the requirements would have been boosted to 70,000,000 gallons a day.

One process of synthetic rubber production requires 85,000 gallons of

water per ton of rubber and one such plant in the Panhandle uses 10,000,000 gallons daily. It is estimated that 3,500 gallons of water are required to process 100 cases of green beans, 16,000 gallons for 100 cases of spinach, and 1,250 gallons in brewing one keg of beer. The production of one gallon of aviation gasoline requires 25 gallons of condensing water, and a single airplane factory in Texas requires 20,000,000 gallons of water each day for cooling purposes.

In addition to communities and industrial plants, operators of irrigated farms are important water users. Since the irrigated areas of Texas, which grew from 895,000 acres in 1939 to 2,400,000 acres in 1947, now account for 8 per cent of the harvested acreage in the state, their use of water contributes substantially to the economy of Texas. Although detailed information is lacking on the total use of water by each of the three major groups of consumers, it appears evident that the requirements of industrial plants now equal or exceed those of any other user and that these plants already have placed a heavy drain on ground-water supplies and the flow of unregulated streams.

THE large supply of ground water in the arid portions of Texas which have few flowing streams within reach has made possible the development of these areas and continues to support their economic activities. Even in sections of the state where rainfall



“THE major water trouble in Texas arises from the erratic nature of its rainfall. It is not unusual in some parts of the state for more water to fall within twenty-four hours than the average rainfall of a specific area in a year.”



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is plentiful and stream runoff is large enough to meet most demands, many communities and industries withdraw water from the ground because the flow and quality of that water do not vary as much as surface streams. Supplies from the ground are little affected by droughts, seldom vary in temperature, and can be developed at relatively low outlay. However, even the combination of ground water and supplies from unregulated streams is no longer sufficient to meet the growing demands of rising population and expanding industry, and new sources of supply must be found.

Fortunately, not all sections of the state are threatened with declining ground-water supplies. But in the High Plains and Panhandle areas of Texas, numerous counties report varying degrees of decline in ground-water levels, as is shown in Table I.

**T**HE Houston area presents the other side of the picture. Between 1930 and 1945, withdrawals from wells serving the city of Houston increased over 60 per cent; withdrawals from wells in the industrial area along the ship channel rose 380 per cent; and water pumped for the irrigation of rice in Houston's Katy district increased 175 per cent. Despite this sharp increase in withdrawals, no material decline has been registered in the ground-water level of the outcrop area to the north and northwest of Houston, which is the source of ground-water supply for the region. Apparently, contributions to storage in the outcrop area have equaled or exceeded withdrawals in the heavily pumped section. On the other hand, in the Galveston-Texas City-Baytown area to the south

and southeast of Houston, withdrawals from underground reservoirs have caused a steady decline in the artesian pressure in recent years and a considerable increase in the mineral content of ground water.

If the water supply of Texas is to be materially expanded to support a growing population and an expanding industry, it is obvious that the runoff of flowing streams, three-quarters of which has so far been allowed to escape into the Mississippi river and, mostly, the Gulf of Mexico, must be harnessed and stored for year-around use. Unfortunately, runoff of Texas rainfall is not uniform throughout the state. It is determined not only by the amount and intensity of precipitation but also by the rates of evaporation and transpiration in various areas, and by the absorptive capacity of the soil. The latter factor, in turn, is affected by the slope of the land, the nature of its cover, and the soil structure.

**I**N some portions of Texas, notably the western sections, rainfall is so light and evaporation so fast that little contribution is made to stream flow. In others, principally the eastern portions, the rate of runoff is very great, due to heavy precipitation and low evaporation. In some areas, the extent of runoff is boosted by the discharge of ground water into streams through seeps and springs, while, in other areas, the runoff is reduced by the loss of surface water to underground reservoirs. Due to variations of rainfall in Texas, the runoff declines from east to west, falling from an average of 10 inches a year in east Texas to one inch in the High Plains and Panhandle sections and to practically zero in the



## IS TEXAS RUNNING DRY?



TABLE I  
DECLINES IN PUMPING LEVELS IN WELLS IN  
HIGH PLAINS-PANHANDLE AREAS OF TEXAS

County	County Seat	1938 Average Pumping Level In Feet	1946 Average Pumping Level In Feet	1938-1946 Average Decline In Pumping Level in Feet
Bailey	Muleshoe .....	37	53	16
Castro	Dimmit .....	106	120	14
Deaf Smith	Hereford .....	92	108	16
Floyd	Floydada .....	97	121	24
Hale	Plainview .....	87	97	10
Lubbock	Lubbock .....	93	118	25
Swisher	Tulia .....	102	107	5

El Paso area. With the exception of a few minor streams in north Texas and a few important ones in the Panhandle area, practically all Texas rivers flow into the Gulf of Mexico through Texas territory.

The Sabine-Neches basin, located in southeastern Texas and southwestern Louisiana, has an average rainfall of from 40 to 60 inches a year and a very high runoff. Only a quarter of the drainage area is cultivated, the balance being in forest and cut-over lands, which causes little silting. Pollution does, however, raise a serious problem since, during periods of low flow, salt water moves upstream from the Gulf, seriously affecting municipal water supplies and resulting in considerable damage to rice crops. In the upper reaches of the basin, waste from cities and industrial plants, and salt water from the east Texas oil fields, have

made the water in some areas unfit for any use.

THE Trinity-San Jacinto basin, about 70 miles wide, extends from northern Texas in a southeasterly direction for 350 miles to the Gulf, with much of its rainfall coming in severe storms which cause heavy floods. Pollution with sewage and industrial waste, or through erosion, has caused difficulty in utilization of the available water supplies, and floods have caused great property losses along the lower reaches of the main stem.

The drainage basins of the Brazos and Colorado rivers of Texas, combined, are 250 miles wide and 600 miles long, extending from the southern portion of the High Plains southeasterly across central Texas to the Gulf. Rainfall ranges from 14 to 20 inches a year at the headwaters of the

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streams, increasing steadily to the southeast and reaches 45 inches along the coast. Much of it, however, is erratic and in localized storms, which often produce devastating flash floods. The rate of runoff has increased substantially through the years, because of heavy grazing of range lands and no soil conservation measures.

The Guadalupe basin, which contains the Lavaca, Guadalupe, and San Antonio rivers, along with several small coastal streams, extends from the Edwards Plateau southeastward to the Gulf. The upper portion of the basin receives intensive rainfall of moderate duration, while the lower portion has intensive rains of long duration, resulting in extreme year-to-year variations and flash floods. The basin contains some of the largest springs in the Southwest but, despite this perennial contribution, stream flow varies widely.

**T**HE Nueces basin in the subhumid zone of Texas has extremes in rainfall, ranging from 8 to 45 inches annually. Its headwaters are in an area of steep slopes and little cover in the Edwards plateau, and some of the water in its upper reaches is lost to underground reservoirs as the river crosses a faulted and porous zone of Carrizo sandstone below the Balcones fault.

The Rio Grande river with its tributaries has the largest single drainage area in the Southwest. The total area within its perimeter is 335,000 square miles, but rainfall is so light and evaporation so high in about half the area that only 171,000 square miles contribute to the runoff. Rainfall in this area averages somewhat less than

15 inches a year, so the runoff of the stream is relatively in proportion to its drainage area. Moreover, a large portion of its flow is diverted into Texas, Mexico, and New Mexico.

The runoff of the major streams of Texas and other pertinent data are presented in Table II.

In a sense, the foregoing totals are deceptive in that the Red, Sabine, and Rio Grande rivers are border streams, and Oklahoma, Louisiana, and both New Mexico and the Republic of Mexico, respectively, have rights to their waters. If it be assumed that only half the waters of the three streams are available to Texas, the average annual runoff applicable to the state is 29,562,300 acre-feet, the maximum annual runoff is 71,191,000 acre-feet, and the minimum annual runoff is only 6,538,000 acre-feet. Nor is all of this water available for impounding for municipal, industrial, and irrigation use, since these streams must always maintain sufficient flow to carry away the waste of communities and industrial plants. But if only half the runoff available to Texas, after allotting half the flow of border streams to other states and to Mexico, could be impounded for orderly distribution throughout the year, and after crediting the 25 per cent of the runoff presently used in Texas, the water supply of the state would be increased by around 3,700 trillion gallons annually.

**B**ECAUSE many Texas streams either go dry in some seasons or their flow drops too low to meet the water requirements of the region, while, at other seasons, they spill over their banks with great property damage and

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the loss of badly needed water, many areas have built storage reservoirs to control the flow of streams on which they are dependent. These projects enable communities to store a portion of flood flows for use during periods when natural flow is inadequate to meet demands, and some reservoirs are designed to supply water for irrigation purposes and power generation.

Bachman lake, constructed near Dallas in 1902-03, probably was the first sizable reservoir in Texas to impound flood waters for municipal use. By mid-1948, 33 additional reservoirs had been built and the combined capacity of the 34 reservoirs was 12,256,840 acre-feet or 3,994 billion gallons. Others were under construction at the 1948 midyear. Benbrook, Grapevine, and Lavon reservoirs were being built in the Trinity watershed; work had been started on Dam B on the Neches river; and Addicks reservoir on

Buffalo bayou near Houston, Whitney dam on the Brazos, Hoards Creek reservoir near Coleman, North Concho river reservoir at San Angelo, and the first of three dams on the Rio Grande river near the Zapata-Starr county line had also been started under the direction of the U. S. Army Engineers.

In addition, Houston, Colorado City, Tyler, and Corpus Christi had formulated plans for the construction of reservoirs to assure future water supplies. And as of August 31, 1948, the Texas Board of Water Engineers had pending before it (1) 19 petitions for approval of plans for the formation of water authorities or districts, (2) 12 petitions for the investigation of the feasibility of water projects involving, in each instance, either more than 20,000 acre-feet of storage capacity, or 50 second feet of stream diversion, or the generation of 2,000 horsepower or



TABLE II  
RUNOFF OF MAJOR TEXAS STREAMS

Stream.	(1) Contrib- uting Drainage Area	(2) Range of Annual Average Rainfall	(3) Average Annual Runoff	(3) Maximum Annual Runoff	(3) Minimum Annual Runoff
Canadian river near Amarillo, Texas	19,830	15-20	640	702	84
Red river near Colbert, Oklahoma ..	38,330	20-35	4,022	9,738	1,068
Sabine river near Ruliff, Texas ...	9,440	35-55	5,977	12,460	1,240
Neches river near Evadale, Texas ..	7,908	40-50	4,566	9,206	720
Trinity river near Romayor, Texas .	17,190	30-50	5,471	12,260	660
San Jacinto river near Huffman, Texas .....	2,791	40-50	1,372	4,518	417
Brazos river near Richmond, Texas	34,810	20-45	5,827	16,120	1,240
Colorado river near Columbus, Texas	29,040	15-40	2,614	6,660	472
Guadalupe river at Victoria, Texas	5,676	25-35	1,141	3,092	437
Nueces river near Three Rivers, Texas .....	15,600	20-30	605	2,547	54
Rio Grande river at Roma, Texas ..	171,000	8-25	4,450	8,254	2,720
Totals .....	351,615		36,685	85,557	9,112

(1) In square miles.

(2) In inches.

(3) In thousands of acre-feet.

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more of hydroelectric power, and (3) 25 petitions for approval of the issuance of bonds totaling \$11,877,000 by a like number of water authorities or districts.

If Texas is to augment its water supply through control of the rain which falls upon it, the water stored in underground reservoirs, and the flow of its streams, many distinct but related problems must be solved, which fall into two general groups. The first group, which concerns water on or under the land, involves: (1) control of runoff to check erosion, (2) depletion of ground-water supplies, (3) efficient use of water in irrigation, and (4) creation of adequate drainage facilities.

The second group of problems involves water in the streams: (1) control of floods, (2) regulation of flow to maintain continuous supplies, (3) prevention of pollution, and (4) development of hydroelectric power.

THE last of the eight problems enumerated above poses a variety of questions which, so far, have not been answered intelligently in Texas or the nation as a whole. The dead hand of politics too long has been grasping in this direction. Additional power, obviously, will be required to meet the needs of a growing population and expanding industry in Texas. For more than sixteen years, one or the other of our free-spending Deals has attempted to socialize the electric utility industry, but the sheer economics involved has not yet convinced a majority of the American people that the free enterprise way of making and distributing electricity isn't cheaper in the end. Whatever method Texas pursues to increase its water supplies, plenty of cost will be involved. But whatever the price, it will be money well spent, if the phenomenal population and industrial growths of the state can be continued.

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“TAKEN as a whole, it [the Columbia Valley Administration Bill, S 1645] provides, potentially at least, for a federally planned economy in the Columbia river basin.

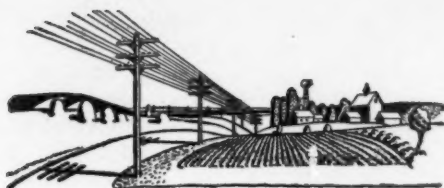
“Its declared policy is that the ‘revelant powers’ of the Federal government in this region be organized, directed, and administered so as to get ‘full and unified conservation, development, and use of the water, land, forest, mineral, fish, and wild life, and other resources of the region.’

“That leaves out nothing. Provisions of the bill respecting state and local participation are expressed in such broad, general language as to be meaningless.

“There would be a definite effort to create a controlled welfare state in which the lives of the people would be regimented to whatever extent the dictators of the hour might presume necessary to their own desires and benefits.

“It is our contention that the Pacific Northwest should be developed at a reasonably rapid pace by private, state, and Federal enterprise, but without the intervention of a super-socialistic welfare state.”

—HARLAN I. PEYTON,  
President, Peyton Investment Company.



## How Electricity Came to 100,000 Farm Customers

How one electric power company celebrated the connection of its 100,000th farm customer in the state of Michigan.

By HERMAN J. GALLAGHER\*

**I**N October, several thousand Michigan people gathered at a farm in Hillsdale county to celebrate the connecting of the 100,000th farm customer of Consumers Power Company. They ate barbecued beef sandwiches, inspected displays of farm equipment and appliances, and heard speeches by the governor of Michigan, the Honorable G. Mennen Williams; C. V. Ballard, director of agricultural extension, Michigan State College; and Justin R. Whiting, president of Consumers.

Many interesting statistics were presented in the speeches and in the literature that was distributed. Mention was made that the company's rural distribution system totaled 23,114 miles; that in addition to farms the company also served 35,578 rural customers; that the combined use of service of farm and rural customers amounted to 373,272,854 kilowatt hours during 1948. This requires generation capac-

ity of 128,000 kilowatts, equivalent to the capacity of a fairly large plant.

The fact that Consumers Power Company serves more farms than any power company in the country has astonished many who think of Michigan as merely an industrial state or a vacation land. This has raised the question of the method used by the company in classifying farms. Since 1930, the company has kept records on farms served and has classified farms according to the definition used by the United States Bureau of Census: "A farm is any tract of land of three or more acres used mainly to produce agricultural products, or a tract of land three acres or less where the annual value of agricultural products exceeds \$250." All farm meter read sheets are coded F to indicate farms served. The coding FF is used to indicate each additional meter on a farm. In reality, Michigan is a great agricultural state as well as a great industrial state. The type of agriculture is widely diversified, and the

\*For personal note, see "Pages with the Editors."

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state was rated in 1948 by the United States Department of Agriculture as the fifteenth state in the Union as to farm cash income.

**N**ATURALLY, the serving of 100,000 farm customers, whose average annual use of service (1948) was 3,051 kilowatt hours, is the result of a planned program executed over a period of years. The initial approach to the problem was the company's growing appreciation of the importance of agriculture as an industry, and how the economic ups and downs of agriculture affected the economic condition of the state.

Better farms and better agriculture seemed essential to the general welfare of the state. To keep better farmers on the farm required better living conditions on the farm so that the farmer and his family could have conveniences and comforts, so that they could do their work more easily and more rapidly and at reduced costs.

To have better agriculture meant increased production, higher quality products, and increased efficiency through the saving of time, labor, and money. All of these things the company believed could be done by electricity, and they had enough faith in their belief to launch a farm electrification program. The first step was taken in 1924 when the company built a farm extension near Parma, Michigan. Shortly after the farm extension was built, Michigan State College became interested in the program, and the dean of engineering accepted the chairmanship of a state committee coöperating with the national Committee on the Relation of Electricity to Agriculture. The company, appreciating the fact that pro-

grams dealing with the welfare of the farmers can best be done through the land-grant college of the state, decided to coöperate with the college in a joint effort to develop and promote farm electrification. The college requested a farm-line extension near the college for investigational purposes. The company built the extension. Similar projects were being conducted or established in 21 other states.

**A**s a result of this work in Michigan and in the other states coöperating with the national committee, a vast amount of factual information was secured and passed along nationally and internationally by the press, magazines, bulletins, pamphlets, pictures, radio, and discussions. This pioneering investigational work, virtually completed before 1931, established the basic foundation on which the entire national farm electrification program rests today.

The logical sequence of such a research program was to inform the farmers of the results attained and to convince them of their need of electricity. This required an intensive mass-production job in education, which could best be done by the agricultural extension service of the college with county agricultural agents in the counties. The company, continuing its close coöperation with the college, helped finance the purchase of a truck and trailer for the college. The truck was equipped with the kind of electrical equipment the farmer could use in doing his work, and the trailer, designed as a model electric kitchen, contained equipment and appliances for the farm home. This outfit was operated by college people and, in reality, was a travel-



## HOW ELECTRICITY CAME TO 100,000 FARM CUSTOMERS

ing college on farm electrification.

The method of operation was to have meetings scheduled a year in advance and to inform the farmers when meetings would be held in their community. During each meeting, every piece of equipment on the truck and trailer was demonstrated and the operation and costs explained. A 100-foot, 3-wire cable was used to connect the electric circuits on the truck and trailer to a local power line. For five years the truck and trailer traveled over the state and was visited by many thousands of farmers who today are good electric customers of the company.

**B**y 1935, the program had advanced to the point where the company decided to establish a farm service department with a supervisor in the general office and farm service advisers in the fourteen divisions that rendered service to agriculture. Pertinent details of the functions of the department as originally established are still in effect. They included:

First, the supervisor of the Farm Service Department to have the same official rank as the supervisors of other new business departments, under the direction of the assistant general manager and vice president in charge of new business.

Second, that the policy of the department would be continued coöperation with the college, the county agricultural agents, 4-H Club leaders, farm

organizations, vocational agricultural teachers, and other established groups and agencies whose objectives were to serve the farmer and further develop the sociological and economic welfare of rural communities.

Third, that the personnel of the department have good agricultural backgrounds, preferably college men with degrees in agriculture or agricultural engineering.

Fourth, that the department staff would not engage in the direct sale of merchandise to customers, that it would be better for the department to be farmer-service minded rather than sales-quota-and-commission minded. Direct selling is promoted through local dealers.

Fifth, the term, "farm service," means readily available help to the farmer on any agricultural problem regardless of its association with electric uses.

Sixth, that annual records would be kept and reports issued.

**E**XPERIENCE has proved that good relations with local dealers and electric contractors and close coöperation with the college, county agricultural agents, and 4-H Club agents have been of invaluable assistance both in securing our 100,000 farm customers and in building our annual farm load where it is today.

Some of our coöperative work with local dealers consists of periodic visits

**"E**LECTRICITY has materially raised the standard of living on the farm by providing conveniences, comforts, safety, sanitation, leisure, and entertainment. It has furnished the farmer a new source of power that is safe, flexible, easily controlled, and economical."

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by our farm service advisers. During these visits, the farm service adviser reviews new equipment on the market and lists all of the sales prospects that he thinks have developed since his last visit. The company also supplies all local dealers with the magazine, *Electricity on the Farm*, and other materials of like nature in order to keep them informed of farm electrification.

On occasion, all of the dealers in a division are feted to an evening meal. At this time, the entire problem is again reviewed, new equipment demonstrated, and college research explained by college personnel. Similar meetings are also held with electrical contractors, during which the importance of adequate wiring is reviewed, and all of the details associated with the company's policy of installing *free* central point distribution systems. The electrical contractor is a very important part of farm electrification as a large majority of our farms are faced with the problem of extensive additions to their wiring systems.

Annually, a 2- or 3-day conference is conducted at the college. At this time, all of the personnel of the department is in attendance and various current problems are reviewed in detail.

Another project conducted in coöperation with the college is a radio program entitled, "Electricity at Work for You." This program, now in its fifth year, comes on the air Tuesday, Wednesday, and Thursday at 1:15 to 1:30 PM over college Station WKAR. It has been an effective program. Last year, it merited the billboard award.

**O**THER projects conducted with the college consist of working with the specialists in the different agricul-

tural departments and in assisting in the preparation of material for pamphlets and bulletins. Some of the projects conducted in coöperation with the county agricultural agents are the operation of demonstration farms, conducting tours, and attending meetings. Annually, we aim at having six demonstration farms, widely scattered over the area. The procedure on these farms is to submeter the equipment, have a monthly report published in the local press, and then at the year's end to invite all the farmers in the county to a day's meeting, during which the farm electrification extension specialist from the college and the farm service advisers of the company demonstrate and explain the operation of the equipment used on the farm. At the same time, the county home demonstration agent and the home economist of the company cover the household equipment and appliances for the farm women. The county agricultural agents keep the company informed as to the meetings scheduled in their respective counties. The farm service advisers attend most of these meetings and are invariably called upon to answer numerous questions pertaining to electric operations.

For a number of years, the company has been active in rural youth programs for both 4-H clubs and students of vocational agriculture. Last year, 208 4-H clubs elected the electrical project. These clubs range in size from five to fifty members, and 1,259 members completed their projects and were awarded prizes given by the company.

One of the big problems in 4-H Club electrical work is the training of volunteer local leaders. The only solution we have found to this problem is for de-

## HOW ELECTRICITY CAME TO 100,000 FARM CUSTOMERS



### Electricity's Personal Magnetism

**“E**LECTRICITY is . . . responsible for keeping more farm boys on the farm and a greater willingness on the part of farm girls to marry farm boys. In the final analysis, this retention on the farm of real farm people with their traditional heritage of private enterprise, individual initiative, and their willingness and ability to assume responsibility may well prove to be electricity's greatest contribution to agriculture, and through agriculture to an improved national stability.”

partment personnel to train leaders and then help them in training 4-H Club members. During the year, 4-H Club members worked on 81 different projects. These projects are all assembled for display at the Annual Achievement Day. Most of these projects are so practical in nature that the 4-H Club members can put them into immediate use on their farms.

**C**ONSIDERABLE supplementary material in the form of literature is given the 4-H Club leader as a part of his training. The company also makes available, at wholesale cost, wire and other materials that are used by 4-H Club members for their projects.

Similar procedure is practiced with the teachers of vocational agriculture. All of these teachers are now required to take a farm electrification short course during the summer months at Michigan State College. In addition, we make available to them equipment

for demonstrations and personnel to assist in teaching.

Requests by farmers for personal service are another item that occupies considerable of the farm service advisers' time. These requests cover many phases of agriculture other than electric operation, such as soil conservation, crop rotation, or the floor plans of dairy barns.

The magazine, *Electricity on the Farm*, is sent for a period of one year to all new customers connecting for service, and it is sent indefinitely to all farm customers who request the magazine. The company also does rather extensive advertising in the local farm papers and the press.

**A** SUMMARY of the results of the company's farm program to date is:

Electricity has materially raised the standard of living on the farm by providing conveniences, comforts, safety,

## PUBLIC UTILITIES FORTNIGHTLY

sanitation, leisure, and entertainment.

It has furnished the farmer a new source of power that is safe, flexible, easily controlled, and economical.

It saves time and it saves labor in doing the numerous burdensome, distasteful daily tasks that are so characteristic of Michigan farming.

It reduces the cost of production, increases quantity of production, and materially improves the quality of product.

**T**HESE are some of the many things electricity is doing for the farmer and his family. It still has a bigger job to do. The prices of farm produce are coming down. The farmer's only sound solution to that problem is to cut production costs to balance price re-

ductions. His most potent weapon in that respect is a more extended and a more intelligent use of electric service. The farm service department of the company will devote every effort toward helping the farmer solve that difficult problem.

Electricity is also responsible for keeping more farm boys on the farm and a greater willingness on the part of farm girls to marry farm boys. In the final analysis, this retention on the farm of real farm people with their traditional heritage of private enterprise, individual initiative, and their willingness and ability to assume responsibility may well prove to be electricity's greatest contribution to agriculture, and through agriculture to an improved national stability.

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**“M**OST professional or semiprofessional people are adept at introducing new techniques in their business. But public relations people use the same old techniques all the time, and merely adapt them to new purposes. One of the oldest techniques now being used to improve relations between an organization and the community is the Open House. This device probably is as old as the family picnic or the Christmas basket, but it is being used today to achieve many different ends. Originally, the open house was a neighborly gesture employed when a company opened a new plant or new addition, when it introduced new models or celebrated an anniversary or had a change of management. Most of these projects were purely social.

“But the modern open house actively, not passively, attempts to create opinions or develop action that eventually will profit the company that's paying the bill. When properly managed, the modern open house is one of the most effective methods known for presenting information to the public, or any other group. Dr. Claude Robinson has said, on many occasions, that messages presented to visitors at an open house are retained over a surprisingly long period of time. He has also said, and we have found it to be true, that people attending an open house expect to receive information and they welcome being sold! Perhaps this is because the open house is the next closest thing to talking to people personally.”

—A. D. LE MONTE,  
Director of public relations, Mullins  
Manufacturing Corporation.



## A Course for Electric Utility Workers

*Has the electric utility industry grown so swiftly that large blocs of its employees have become locked off into watertight compartments without comprehension or understanding of what the others do or the over-all function of the business?*

By ARNOLD HAINES\*

A GOOD many executives in the business world have, at some time or another, heard some variation of Rudyard Kipling's famous story about the Indian native railway depot worker. With his trusty hammer, this native, for thirty years, religiously tapped the wheels of every locomotive which came into the terminal. Yet, he had not the slightest idea of why he was supposed to perform this operation. Reason was that some supervisor, in the dim distant past, had failed to explain it to him; and he was too polite to ask, or even presume to question the "voice of authority."

We may laugh over the Indian native's lack of curiosity. But a fair question often arises in modern electric utility operations as to whether management invariably makes the effort necessary to acquaint present-day em-

ployees with the over-all significance of many things which are done in the electric utility business.

It goes without saying that the electric industry has come a long way since the day of the early control station organization which Edison pioneered. Many present-day executives can remember those days, when the average electric utility organization consisted of a few department heads who knew each other's job perfectly well. A small crew of operating and maintenance workers took care of the simple lighting load of that day, which consisted chiefly of arc lights for street lighting and a few houses and places of public assembly. Almost any one member of the team could play the other fellow's position, in a pinch.

Many present-day executives have grown up with the constant expansion and specialization in the business which have come about so gradually that every

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## PUBLIC UTILITIES FORTNIGHTLY

present-day operation, complicated to most, seems not at all mysterious to them. But how about the newer generation of electric utility workers? Granted that these are well trained for their own special work and even have the benefit of some over-all indoctrination as to what the electric utility business is all about—can we be sure that the average worker has an intelligent, balanced picture of the business in which he makes his living?

**E**SSENTIALLY, the electric utility business is a manufacturing business. It manufactures and sells a product called "electricity"—which is made by burning coal in boilers, guiding steam to turbines, laying cables to substations, and stringing wires to the customers' premises. It is a unique product because it cannot be seen nor even be described, except in rather abstract terminology.

Paradoxically, this product called "electricity" has become so commonplace that it is taken for granted, not only by the public, but often by the employee whose job it is to serve the public. The very reliability and efficiency which characterize electric utility service today, contribute to this lack of curiosity. It is just the reverse of the "squeaky axle" that gets the proverbial grease of attention.

The obvious place to make a beginning on any program of indoctrination, for employees along these lines, is the lowest common denominator—in other words, bare fundamentals. If each employee could take the time, and had the inclination to follow the history of electricity through the various experiments of Franklin, Leyden, Volta, Faraday, Edison, Stanley, Steinmetz,

and the other great pioneers of the industry, it would prove a great basic education. Electricity would no longer seem like a ubiquitous yet mysterious stream of "juice" or "hot stuff" which flows through a wire when a connection is made.

The nearest solution, however, to these two big "ifs" (the employee's time and inclination) that this writer has seen in recent years, is the publication late last year, in an attractive ring binder volume, of a 10-unit course called "Simplified Electricity for Utility Workers."<sup>1</sup>

The author of this publication is P. R. Rutledge, a veteran of many years in the industry with a large gas and utility company in the East. Rutledge was inspired to undertake this task as a result of his practical experience as an electrical engineer. Time and again he realized that in modern-day electric utility operations it is often necessary to hand over important tasks, involving great operating responsibility, to employees who do not have technical educations. In nearly every instance he found that these employees wanted to understand electricity, as it was dealt with by his power company.

**T**HE problem, therefore, resolved itself into one of working out a simple explanation of the entire phenomena of the electrical art—from the basic principles of magnetism through stages of electromagnetic theory, generation, transmission, distribution, public regulation, and modern industrial operation.

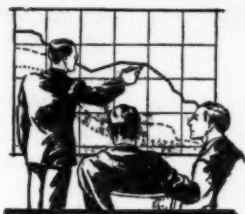
This, in itself, was quite a task—one which Rutledge encompassed through

<sup>1</sup> Delmar Publishers, Inc., Albany, New York.



## A COURSE FOR ELECTRIC UTILITY WORKERS

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### The Need of Balanced Employee Information

**"M**ANY present-day executives have grown up with the constant expansion and specialization in the business which have come about so gradually that every present-day operation, complicated to most, seems not at all mysterious to them. . . . how about the newer generation of electric utility workers? Granted that these are well trained for their own special work and even have the benefit of some over-all indoctrination as to what the electric utility business is all about—can we be sure that the average worker has an intelligent, balanced picture of the business in which he makes his living?"

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the device of dividing his work into a series of 10 "units." These individual units, which have separate covers, average about 3,300 words, printed in large, widely spaced, type. The separate units average 17 pages of basic text, plus numerous illustrations. Some idea of the simplicity of this treatment can be gained from the fact that Mr. Rutledge's sentences average 15 words each. And that he is almost conspicuously sparing in his use of any words of more than one syllable.

This does not mean that Rutledge has "written down" his subject for anybody — engineering graduate included. But it does mean that he has struck a common denominator which could be absorbed equally well by executive and stenographer alike. The difference would simply lie in the degree of absorption and the circumstances surrounding the process.

The executive, for example, could read one of these "units" in less than a half-hour and get everything out of it that the author intended. What's more he could go through the entire book in a single evening's reading. And that would not be a bad idea—for who isn't rusty on fundamentals these days?

**T**HE stenographer, on the other hand, or the lineman, might require the supplemental assistance of an organized session, guided by a competent instructor who would move more slowly, and allow the necessary time for absorption, exemplification, and review. Plant visitation and demonstration are also recommended.

But if this sounds like Rutledge has oversimplified anything, in the process, consider the fact that he has achieved a lucid explanation of such items as atoms, Ohm's law, Fleming's law,

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Lenz's law, polyphase circuits, transformation, metering, and the economics of steam *versus* hydro.

THE plain truth is that no one, even Professor Einstein, resents simplification or clarification, *per se*. If a subject *can* be made as simple as three oranges and three apples nobody is going to feel that his intelligence is insulted simply because it *is* made that clear. The great editor William Allen White once said, to a group of young journalists, that in all his years in the newspaper business he had never received a single complaint because his paper had made things *too simple* for the reader. The inference was that Editor White had sometimes had a contrary experience. There probably isn't an editor in the country who would not agree.

Rutledge explains that his work was undertaken at the request of a group of nontechnical employees. Both the content and method of presentation have been largely influenced by suggestions from these employees.

As the work progressed, it was reviewed with engineers in several large electric utilities. These practical engineers were men with experience in employee training and gladly gave of their time to criticize and improve the preparation of the subject matter.

Suggestions for group demonstrations and review problems are provided for those units where such additional information is needed. These supplement the text material and make it possible to check on the trainee's mastery of each new unit as well as the effectiveness of the instruction.

The subject matter, using a limited amount of arithmetic, attempts a prac-

tical, down-to-earth explanation of the generation, transmission, distribution, and metering of electrical energy. It covers the operation of the main equipment used in the industry and the meaning of the electrical terms the employee hears about every day.

THERE are two main objectives to the course. One has to do with the employee who wishes to qualify for promotion. For him the course provides the groundwork in the fundamentals of electricity which he should have to take advanced training and qualify for more specialized work.

The other objective has to do with the individual who wants to improve himself in his present work by better understanding the over-all operation of his company. From this course he should learn that his job is not an isolated operation but a definite and necessary part in the functioning of his organization.

The topical subjects of the 10-unit course in their order of programming are as follows: (1) "Our Job with the Power Company"; (2) "Magnetism"; (3) "An Introduction to Practical Electricity"; (4) "The Terms We Use"; (5) "Sources of Electrical Energy"; (6) "How Alternating Current Behaves"; (7) "Electric Motors"; (8) "Transformers"; (9) "Instruments and Meters"; (10) "Generation, Transmission, and Distribution."

Offhand, it would seem that the subject matter of the first unit—which deals with the electric industry as a whole, its structural organization and economic regulation (with a side dish of reference to public ownership)—is of more general importance and interest than any of the others.

## A COURSE FOR ELECTRIC UTILITY WORKERS

A sample of the informal type of approach that Rutledge takes, in appealing equally to the man in the front office as well as the man on the pole, is seen in the following passage from this first unit:

You and I then, who work for the power company, are the power company to our customers. There are some 280,000 of us employed in the privately owned electric utilities with about 40,000,000 customers buying our service for themselves and their families. The electric utility is known to and judged by this multitude of citizens only through their various contacts with us as utility employees. In the final reckoning these customers will decide, based on their dealings with us, whether our form of organization will continue to supply them with a service so vital to their way of life.

If we have faith in our way of doing things—where men, management, and money have combined in a system of free enterprise to develop our service so that we lead the world in that development—then we must accept the responsibility that rests with us to see that our way of doing things is continued.

If as individuals we want to stand up and be counted as people and not just cogs in a machine—to be recognized as human beings with a purpose in life—then as individuals, that opportunity is ours. This applies to every employee in our industry regardless of age or sex. As qualified representatives of the electric utility industry we must know something about the industry as a whole. We must know more about the functioning of our own particular industry and of our own job and how it fits into the over-all picture.

All of us who work for the electric power company have this in common—we get our living from the sale of but one commodity, the kilowatt hour. There is not one of us who cannot get more out of living by a better understanding of the production, distribu-

tion, and sale of our only commodity.

A working knowledge of our dealings in electrical energy is well within our capacity to learn. The only person who cannot improve himself is the one who already knows all the answers.

To venture a critical note, this writer was somewhat amused at the short shrift which Rutledge makes of the entire subject of regulation. He skates gingerly over it in four paragraphs, part of which follow:

When in the interests of adequate and safe service at the lowest possible rates to our customers we are granted the sole right to distribute our service over lines on streets and highways in our franchise area, we are at the same time subject to very definite regulation. This regulation is the function of a nonpolitical group of from three to seven members usually appointed by our state governor. These men with a record of broad experience and sound judgment are provided with a staff of qualified assistants to handle their clerical, engineering, legal, accounting, and rate service work.

The chief function of the commission, quite often known as the "public service commission," has to do with the regulation of rates. Either the utility or the customers may petition the commission for a change in rates and have their supporting evidence impartially examined. It is also a function of the commission to see that all customers having the same requirements will be given the same rate.

Many of the state commissions have published and enforced definite rules and regulations pertaining to standards of service, such as voltage and frequency variations, continuity, safety, and testing and accuracy of meters.

TRUE, he does venture some additional comments as to—why a public utility is a natural "monopoly"; and, how a power company is obliged

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to supply reliable service, at the lowest possible rates, without discrimination; and, why rate increases may be necessary. These are all parts of the picture of regulation. But it would seem that such cursory information falls considerably short of equipping a meter man, or installation man, or other employees coming in contact with the public, with the answers to such simple questions as these: How do I know my rate is reasonable? On what basis is it fixed? Isn't it the company's rate valuation based on a lot of hot air or watered stock? How do we know the company isn't making exorbitant profits? Why is it that I am paying more for electricity today? Why wouldn't government ownership be cheaper?

These questions, foolish as they may seem, pop up with disheartening frequency in the life of any veteran contact employee. It would seem that if such employees are going to give the soft but intelligent answer which not only "turneth away wrath," but also spreads a little light in dense or dark places, they will have to have a somewhat more intensive refresher course on that particular phase of their company's operations. Maybe another "unit" or some addendum to the first unit under such title as "Twenty Stupid Questions and Their Answers" might be a nice way of topping off Mr. Rutledge's otherwise excellent and comprehensive roundup of the electric business.

But this single critical reaction to one side, the over-all impression the writer gets is that Rutledge has assembled a most practical working tool for giving the most information in the simplest

manner in the shortest time. What's more, it is a volume that can be used in several different ways to suit various classifications of readers. As already indicated, the well-informed person who wants to brush up on elementals, can simply read the volume through in his own home in one evening and that is that. Or it can be given in the recommended manner as a series of instructions. Or it can be used as a basis for voluntary employee open forum—based on the plausible theory that employees will listen to each other more readily, and with less inhibitions and reservations, than if the information were spoon fed to them, under the auspices of a company instructor.

AGAIN, the volume can be used in connection with an intelligent program for visiting various parts of the plant and witnessing actual demonstration of dynamos, transmission lines, customer records, and, last but not least, the mysteries of the front office. There is even the interesting possibility that, by using a "review of reviews" or "digest of digests" technique, a certain amount of this information can be inculcated in the minds of the visiting public during "open house" tours.

Rutledge has broken plenty of ice and has made considerable headway, but much remains to be done in the way of attractive packaging and palatable capsuling of basic information about the industry for both employee and public. None will deny the need or desirability of such accomplishment. The baffling problem is, as it has always been, the *modus operandi* or, in plain theater lingo, "putting it over."

# Washington and the Utilities



## *Tax Rhubarb Coming Up*

WITH a ten weeks' vacation behind it, the second session of the 81st Congress finds itself under terrific pressure from all quarters—the White House excepted—to “do something” to get the Federal fiscal household in order. What that “something” may or can be is a moot question at this moment. Certainly the President's budget will get some paring, and there is better than an even chance that several of the wartime excise taxes, among them the levies on transportation and communications, will be at least halved.

Although committed to a program that will call for higher levies on corporate profits, upper bracket individual incomes and inheritances, President Truman has cautiously let it be known that he would favor elimination or partial reduction of the wartime excise taxes, but he will tie a string to this concession—that the Congress find other revenue as replacement. With public protest against high taxes now at a stage which has prompted one Democratic Senator to privately predict that 1950 will be recorded as “the year of the great tax revolt,” there is little likelihood that Congress, facing the voters this fall, will seek new revenues to replace those which may be lost through excise tax cuts.

This certain-to-be-prolonged battle on fiscal policies may benefit the utilities, but in a negative way. Lengthy, heated debate on this sorest of all points in an election year can leave little time for debate or action on those measures supported or opposed by the utilities. Passed by the House during the first session, and pending before the Senate, is HR 1758 by Representative Oren Harris (Demo-

crat, Arkansas) to remove gas production-gathering from Federal Power Commission jurisdiction.

An almost identical measure, S 1498, by Senator Robert S. Kerr (Democrat, Oklahoma) favorably reported by the Committee on Interstate and Foreign Commerce, is also on the Senate calendar. However, Senator Kerr will press for early action on the House-passed bill, thus eliminating the delay of House-Senate conference to iron out differences between his measure and that by the Arkansan.

A NEW alignment within the Federal Power Commission could at least ease any urgent necessity for passage of either the Kerr or the Harris measure, but Senator Kerr is known to prefer that FPC control of “arm's-length” sales of natural gas be eliminated by statute, rather than leave it a matter of uncertainty of alignment of thought within the commission. Pending before the commission is a petition by the Delhi Oil Corporation for a clarification of its status before FPC can grant a certificate for the proposed pipeline of the El Paso Natural Gas Company from Texas to serve southern California. This status has been rendered uncertain by the split division of the commission resulting from a vacancy. The new FPC commissioner, Mon Wallgren, will have a chance to form a clear-cut majority of the commission on a policy question which has been a distinct hindrance to the expanding natural gas industry, and Commissioner Draper seems to be having some second thoughts on jurisdictional concepts these days. The Delhi Oil Corporation will not supply gas to the proposed El Paso pipeline unless it has assurance of freedom from FPC juris-



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diction, while El Paso Natural Gas Company would have difficulty showing an assured adequate supply without the gas it expects from Delhi, "at arm's length."

### *Quiet Valleys*

REGIONAL authority bills seem slated to rest quietly and undisturbed in committee rooms, although Public Works committees of Senate and House have funds to conduct "on the ground" hearings on the Columbia Valley Administration Bill throughout the states of the Pacific Northwest. With the budget and taxes getting close attention in House and Senate, these hearings may not be held, or at most will be very brief, coming during whatever Easter vacation Congress may decide to take.

It is noted here that the Congress of Industrial Organizations has recently taken up the fight for a CVA, inaugurating a series of supporting articles in its official weekly magazine, *The CIO News*. The big industrial union has also given notice that it will exert pressure on Congress for authorization of one or more valley authorities in the New England states. Emil Rieve, head of the CIO's textile group, will be in charge of this drive. Rieve has declared that cheap Federal power for New England is an absolute necessity if the industrial economy of the region is to survive.

Not to be outdone by the CIO, the American Federation of Labor, through its political arm, Labor's League for Political Education, has taken up the cudgels for a Columbia Valley Administration, declaring that creation of a CVA will eliminate "brown-outs" in the Pacific Northwest, stabilize employment, and bring new industries to the area.

It is not within the realm of probability that this labor support of valley authorities will carry much weight with the House and Senate committees on Public Works. Representative Will Whittington (Democrat, Mississippi), chairman of the House group, is very definitely opposed to the valley authority type of

development, and his views are respected by slightly more than half the 27-man committee. It is difficult to appraise thinking in the Senate committee. Chairman Dennis Chavez (Democrat, New Mexico) appears to have an open mind on the matter. He has said that he will not make any decision until residents of the Columbia valley have a full opportunity, through hearings in the region, to state their views.

SENATOR Harry P. Cain (Republican, Washington), ranking minority committeeman, has taken what appears to be a decidedly antagonistic stand to a CVA, and during the recess canvassed his home state, asking for local views, and at the same time closely querying his constituents on their understanding of the plan. He told Washington newsmen that he found people "appallingly" ignorant of the implications of the CVA bill as drawn by his Democratic colleague, Senator Warren Magnusson. He flatly predicted that if the residents of the Columbia valley become fully aware of the "threats" to their economic freedom as contained in the CVA proposal, they will be "almost unanimous" in their rejection.

### *Wildcatters Get Encouragement*

WILDCATTERS may find encouragement in a recent order of Interior Secretary Oscar Chapman, lifting the suspension and authorizing issuance of oil and gas leases on federally acquired lands. The suspension, which has been in effect pending enactment of legislation to revise the Mineral Leasing Act, was lifted, Chapman said, "to facilitate" oil and gas development on government holdings and on adjacent privately owned lands.

Under the order, the Bureau of Land Management will issue leases on condition that applicants will: (1) commence actual drilling operations within six months from date of issuance of lease; (2) accept commitment to an approved unit agreement when the land is committed to an approved unit plan, or when the



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and is within an area designated by the Geological Survey as logically subject to unitization; and (3) furnish ample evidence to substantiate the structural situation of the land involved in relation to the proposed well if it is demonstrated that the structure would be an integral part of a compact drilling unit. Issuance of leases falling within categories 1 and 2 shall also have the approval of the Geological Survey director.

Failure to comply with the requirement that drilling be commenced within six months of effective date of the lease will put it in default and subject to cancellation unless extended by the Secretary.

### *Transit Woes for Washington*

CAPITAL TRANSIT, furnishing streetcar and bus service in the Washington metropolitan area, because of a recent board of arbitration award of a 10-cents-an-hour "across-the-board" wage increase to more than 3,600 operating and maintenance employees, finds itself in a dilemma which may take congressional action if the more than 200,000 Federal workers in Washington are to have reasonable transit service to and from their daily tasks. The wage award, retroactive to July 1, 1949, has put Capital Transit in a position where it will have to ask the public utilities commission of the District of Columbia for a combination of increased fares and curtailed schedules.

Because of low taxicab rates, especially where two or more persons riding to the same destination or same general area occupy one cab, the transit company may come abreast of the point of diminishing returns. Curbing of schedules and service could impair the efficiency of government operations in Washington.

ONE immediate step the lawmakers could take would be to repeal the present 3-cent fare for schoolchildren, a rate that was fixed by Congress in 1933 when the Washington Railway & Electric Company was merged with the Capital Traction Company to become the present Capital Transit. However, this relief

would amount to only \$180,000 annually, about one-sixth the company's revenue requirements to get a fair return on its investment. In a series of newspaper advertisements addressed to its patrons, the company has explained its predicament, stressing that fare boosts and curtailed service are things it would like to avoid, but will have to ask. If the public utilities commission grants fare increases and curbed schedules, and the latter hamper government operations, then the problem will be one that only Congress can solve.

### *O'Connor on Amortization*

WE may witness the slow death of the business goose that lays the golden prosperity and tax eggs if there isn't a revision of government thinking with respect to amortization of expenditures for replacement and expansion of plant facilities, according to Senator Herbert R. O'Connor (Democrat, Maryland). In a formal statement he declared:

It is my firm conviction that one of the most important objectives to which Congress can address itself during this coming session in the interest of continued prosperity is the revision of government thinking with respect to amortization of expenditures for replacement and expansion of plant and equipment facilities. Otherwise we may witness the slow death of the business goose that lays the golden prosperity and tax eggs. The now thoroughly recognized and worrisome lack of venture capital is doing enough to hamper business development, without the additional shackles which current depreciation regulations impose.

O'Connor says that business concerns that have adhered strictly to Internal Revenue requirements regarding depreciation reserves have found that increased costs of construction and plant equipment render it absolutely impossible to replace worn-out equipment on the reserves which have been set aside based on original costs.



## Exchange Calls And Gossip

### *REA Begins Phone Loan Program*

THE Rural Electrification Administration recently began distribution of its rural telephone loan application form and a bulletin outlining general standards and requirements for loans.

REA last month disclosed that conferences had been held with rural leaders, telephone company representatives, farm organization officials, and others to discuss application forms for loans, policies, and general procedure.

Inquiries about the rural telephone loan program, administered by REA under an amendment to the Rural Electrification Act approved October 28, 1949, have reached REA from all but five states. These states were listed as New Hampshire, Connecticut, Rhode Island, Maryland, and Delaware. Informal applications include about 700 from established rural telephone companies.

The preliminary information called for on the loan application will enable REA to make a determination of the general eligibility of the borrower to obtain a loan. After that is made, REA will advise the applicant of further steps to be taken.

An important consideration in appraising any loan application will be the extent to which the proposed loan will contribute to providing telephone service to the widest practicable number of rural subscribers. This area coverage principle was written into the new telephone legislation by Congress.

Loans may be made to operators of telephone systems, both commercial and nonprofit, but will not be made to indi-

vidual subscribers for their own station equipment. Public agencies, municipalities, or other governmental bodies are not eligible to obtain loans, except that co-operative or mutual associations which may be technically designated by state law as "public bodies" are not thereby made ineligible.

THE first Arkansas telephone company to seek Federal assistance in expanding its rural service got an official "go ahead" from the state public service commission on December 21st. The Public Service Corporation was authorized to borrow from the REA a 35-year loan of \$218,000 at 2 per cent interest to modernize and expand its service in the Tuckerman-Swifton-Alicia area.

In what may become a precedent-setting order, the state commission allocated the company service territory and approved its building and expansion plans. In its order, the commission said "it is evident that standards of economic feasibility applied to construction of telephone facilities in prior proceedings before this commission will not necessarily be controlling in cases arising under this new law.

"What is not economically feasible under high-cost private financing may be feasible under lower-cost Federal financing."

### *FCC Order Curbs Bell*

THE Federal Communications Commission last month ruled unlawful the Bell telephone system's restrictions against connecting its intercity television channels with similar facilities owned by others.

## EXCHANGE CALLS AND GOSSIP

The commission ordered twenty-two companies in the system, topped by the American Telephone and Telegraph Company, to file a schedule of rates for such intercommunications by next March 1st. It applied the same order to the Western Union Telegraph Company, which does not have such restrictions against intercommunications.

In an order looking to the eventual expansion of facilities for transmitting television programs between cities, the FCC made both groups parties to a hearing scheduled for January 25th on these questions:

1. Whether the public interest requires establishment of physical connections between present and future television transmission channels of Western Union and the Bell group.

2. Whether through routes should be established by using facilities of the two groups.

3. Whether the commission should fix the charges for such through routes, and whether it should say the charges should be divided.

4. Whether the commission should require the establishment of facilities for operating through routes for television transmission.

The commission adopted as final a previous report holding the Bell system's restrictions unlawful. Bell companies refused to connect other transmission channels, such as those operated by Western Union, the Allen B. Du Mont Laboratories, Philco Corporation, General Electric, National Broadcasting Company, and Balaban & Katz, with Bell channels unless Bell facilities were used for the full distance they were available.

### TV Stations Operate in the Red

A FEDERAL Communications Commission report issued last month showed that every TV network and station operated in the red in 1948. Television broadcasters lost almost \$15,000,000 in 1948, the industry's first big year of operation. At the same time, the FCC

said that profits in the standard radio broadcasting industry were cut 10 per cent, chiefly because of rising expenses.

Incomplete reports by 77 stations indicated that FM stations lost several million dollars. Although there are 593 standard broadcast stations operating FM stations, only the 77 reported separate revenues for FM operation during the year 1948.

### Bell's Year-end Review

THE American Telephone and Telegraph Company last month revealed the Bell system is now handling a record volume of 180,000,000 calls a day and these calls are going through faster than at any time since prewar days. The system has about eleven and one-half million more telephones in service than at the end of the war. Bell companies added nearly 2,000,000 telephones during 1949, bringing the total number in service to more than 33,300,000.

A recent study in cities of 50,000 or more population shows that the average telephone user can reach 75 per cent more telephones without toll charges than he could in 1940.

Some 350,000 telephones were added in rural areas by the Bell system and the independent telephone companies during 1949. About 50 per cent of the farms of America now have telephones—a higher proportion than in any other country in the world. The Bell system has boosted its postwar rural telephone gain to 1,300,000 and to accomplish this has added 615,000 miles of wire and 100,000 miles of new pole lines in these areas. Bell companies have spent \$350,000,000 since the war to extend and improve rural service and they are going ahead with the program during 1950.

Over-all expenditures for new construction during 1949 exceeded a billion dollars, bringing the cost of the system's postwar expansion and improvement program to \$4.4 billion. The system raised about \$600,000,000 in new capital in 1949.

New demand for service continued at

## PUBLIC UTILITIES FORTNIGHTLY

a high rate. To meet the needs of all customers and improve telephone service further, the Bell companies must keep on adding much new plant, it was said.

### *Rate Boosts Held Unjustified*

THE Chesapeake & Potomac Telephone Company should not be allowed to charge rates based on extraordinary postwar conditions, the Virginia Corporation Commission was told last month.

Dr. John Bauer, New York consulting economist, said the tremendous expansion of the company after the war should be written off over a period of several years, instead of being charged against income for the years in which it was undertaken.

The rate expert testified for the League of Virginia Municipalities, which is objecting to the company's proposed \$3,900,000 rate increase.

If these exceptionally high expense items and relatively high pension charges were properly adjusted, Dr. Bauer said, the net return to the company would be considerably larger than the 5 per cent or less on capital investment which it reported at previous hearings.

With these adjustments, Dr. Bauer said, the company's net return in 1945 should read 6.29 per cent; in 1946, 6.71 per cent; in 1947, 7.27 per cent; and in 1948, 7.54 per cent. The company, he said, earned \$2,042,740 in excess of 5 per cent during 1948.

Expenses of the company-financed pension plan were \$835,429 too high in 1948, Dr. Bauer said, because prospective pensions were figured on an accrual basis instead of on the basis of total pensions actually paid. Reductions in the pension fund and prorating of recent construction expenses would account for most of the difference in the two sets of net return figures, he said.

Dr. Bauer stated that upward adjustments in the company's net returns could also be effected by other means. Handling of interstate operations separate from intrastate has no sound basis, he contended. The company should pool its

returns from both types of operations.

### *Interim Rate Raise Denied*

THE South Dakota Supreme Court recently denied the Northwestern Bell Telephone Company the right to an interim rate boost while its case is pending in circuit court. The high court held that the circuit court was without power to grant the telephone company a 12 per cent rate increase while it was deciding an appeal from a state public utilities commission order denying any increase.

The telephone company posted a \$1,500,000 bond on October 28th when Judge A. B. Beck granted it permission to put into immediate effect the 12 per cent boost. The phone company had wanted a 21 per cent raise.

The recent opinion, given on a review by the supreme court of that action, reversed the circuit court.

"We are convinced that the trial court was without power in this instance," the opinion said. "The cause before the court was there only by virtue of the appeal, and the only question before the court was the validity of the commission's order."

### *Granted Rate Raise*

THE New England Telephone & Telegraph Company was granted a rate increase last month by the Rhode Island public utility hearing board which will boost rates for individual users roughly 25 cents to 50 cents a month.

Subscribers had been paying a part of the increase since last August, when an emergency revenue increase of \$1,080,000 was granted by Commissioner Thomas A. Kennelly, pending the appeal board's decision.

In all the rate cases, begun in 1947, the company sought \$5,000,000 in new revenues. Last month the company won \$1,901,444 and a 1948 order gave it \$1,200,000—a total of just more than 60 per cent of the company's total requests. All pending rate cases—if there is no appeal—were brought to an end by the board's decision.

# Financial News and Comment

By OWEN ELY



## *TVA—Agency of the Welfare State*

TVA appears to be a perfect illustration of the activities of the "welfare state." Stress is constantly laid upon the many contributions made by the authority toward the welfare of the people of Tennessee, with very little emphasis on the over-all cost of the enterprise or the "yardstick" rates for electricity which furnished the original political incentive for the enterprise.

Thus the authority in its sixteenth annual report features its philosophy that "The welfare of people depends not only upon the natural resources they have at their disposal, but also upon the means they have to conserve, develop, and use them. The task of TVA over the past sixteen years has been to help the people of the Tennessee valley expand their control over their natural assets of waters, soils, forests, and minerals. TVA has thus helped give them greater scope for their initiative, talents, and intelligence

and has brought to them, individually and collectively, wider ranges of economic choice. The end results of better, more profitable use of resources spring ultimately from the activities of the citizens of the region, working with the greater economic elbowroom made possible by TVA."

Economist Carpenter of the Edison Electric Institute estimates that TVA in the 1948-49 fiscal year made an operating profit of \$20,700,000 through its electric operations, but lost \$10,600,000 on navigation, transportation, fertilizer, and its many various research and welfare enterprises. "General research expense" took \$428,000, study and development of river transportation accounted for \$210,000, and flood-control "studies and investigations" absorbed \$63,000. Chemical products "shipped for tests and demonstrations" cost \$1,269,000 and chemical general expense was \$390,000. On navigation operations the authority spent a total of \$2,783,000, on flood control \$2,282,000, on chemical and fertilizer operations \$915,000. In addition, \$4,623,000 was spent on farm, forest, and mineral developments, sanitation and public health, recreation, fish and game, typographic mapping, and other special activities. Thus \$10.6 billion were expended for welfare and development in the Tennessee valley area, reducing the profits from electricity to \$10,300,000. After deducting an estimated \$16,300,000 interest on funds invested by the U. S. Treasury in TVA (about three-quarters of a bil-

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## PUBLIC UTILITIES FORTNIGHTLY

lion dollars) Mr. Carpenter estimates that there was an over-all deficit of \$6,200,000 for the latest fiscal year.

As to electric operations, TVA produced nearly 16 billion kilowatt hours in the fiscal year. Power revenues amounted to \$58,000,000 or \$9,000,000 more than the year before, and net operating revenue was about \$21,500,000, "representing a return of 5 per cent on the net average power investment," according to the TVA report. "Residential consumers of TVA power used an average of 2,762 kilowatt hours during the year at a cost of 1.54 cents per kilowatt hour; comparable figures for the nation were 1,625 kilowatt hours and 2.98 cents per kilowatt hour."

The latter comparison seems unfair because (1) TVA in the past has built its plant out of public funds, and it does not have to pay Federal taxes against its earnings; "payments in lieu of taxes" amount to only about  $3\frac{1}{2}$  per cent of revenues and are intended only to offset local property taxes. (2) It has not had to supply stand-by steam facilities for use in time of drought, although it has now started construction of a 337,000-kilowatt steam plant in west Tennessee which may eventually cost \$100,000,000 or more.

Where hydroelectric power is available on a dependable basis, the private utilities can equal TVA "yardstick" rates after allowance is made for the added burden of Federal taxes, and despite higher financing costs. Thus Idaho Power's residential rate averaged only 1.77 cents in 1948. The company produced practically all its own power, and paid income taxes of \$1,160,000 or over one-tenth of its electric revenues; had this been refunded to customers, obviously the residential rate could have been reduced to less than 1.60 cents. Portland General Electric's residential rate in 1948 was only 1.28 cents despite the fact that it paid nearly 5 per cent of revenues in Federal income taxes—a much better statistical showing, apparently, than TVA could make. However, it bought over half its hydro power from Bonneville, so that low-priced government electricity may

partially explain the excellent showing.

So far as residential use of electricity is concerned, consumers in the TVA area are certainly not taking an exceptional amount considering the low rates. Compared with 2,762 kilowatt hours in the TVA area, Portland General Electric sold 4,553 kilowatt hours to each residential customer in 1948, Idaho Power 3,853, Georgia Power 2,300, Mountain States Power 2,317, Puget Sound Power & Light 3,912; etc.

Total operating revenues of the municipal and cooperative distribution systems handling TVA power amounted to nearly \$71,000,000 and combined net income was about \$14,000,000, or some 20 per cent of revenues, according to the TVA report. Here again the question of Federal taxes intervenes. Last year private utilities paid 10 per cent of their revenues to the Federal government and had the same been true of the municipal and cooperative systems distributing TVA power they would have carried down to net income only 10 per cent of total revenues. In 1948 all electric utility companies carried down to net income over 17 per cent of revenues. To be sure, governmental and private utilities are differently financed, and a comparison of "net income" for the two is hardly a fair test of efficiency, but nevertheless the figures are of interest, and probably about as near right statistically as some of the comparisons made by TVA.

Dean Russell, a member of the staff of The Foundation for Economic Education at Irvington-on-Hudson (New York), last year published a 108-page book on *The TVA Idea*. While we cannot vouch for the accuracy of his findings, they seem well documented. (See review published in October 13, 1949, issue of the FORTNIGHTLY, page 509.)

He points out that the TVA project was deemed to be within the authority of the Federal government under the commerce clause of the Constitution. The Supreme Court ruled that this Federal power covers all navigable streams, that flood control is necessary to keep streams navigable, that navigation and

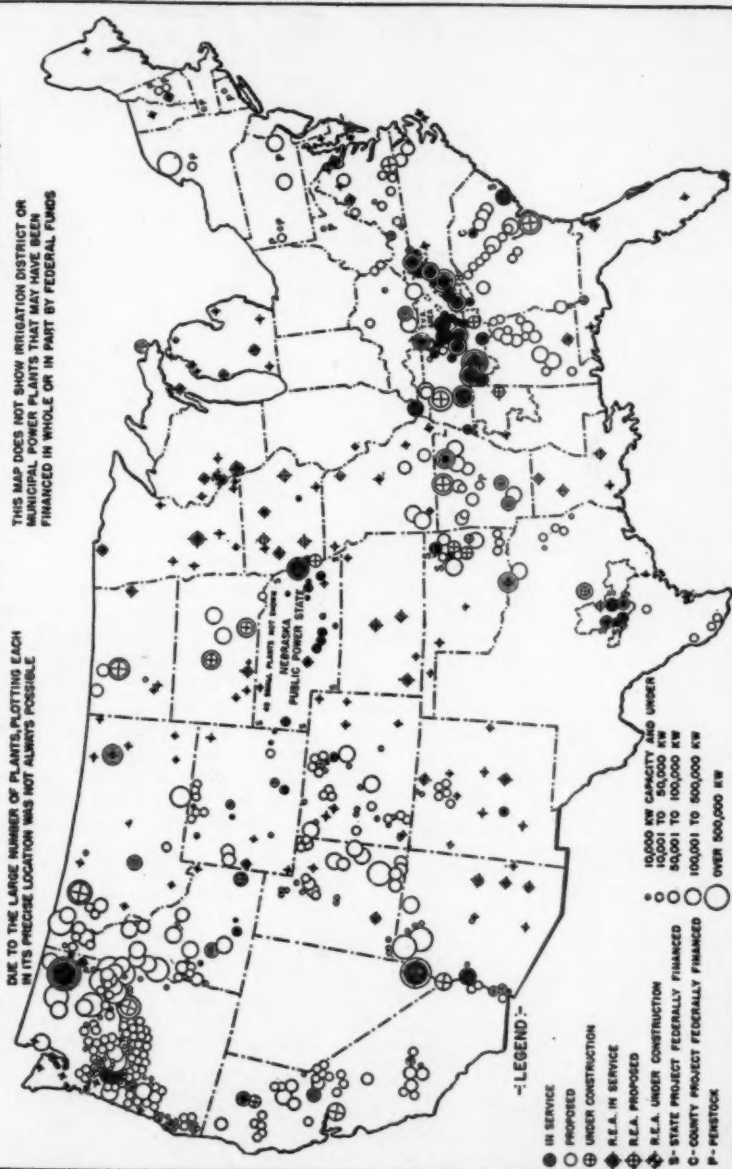


# FEDERALLY FINANCED POWER PROJECTS - MARCH 1949

A TOTAL OF 641 GENERATING STATIONS WITH 44,169,804 KILOWATTS OF INSTALLED CAPACITY ARE IN SERVICE, UNDER CONSTRUCTION, AUTHORIZED OR APPROVED, AND BEING ACTIVELY PROPOSED BY FEDERAL BUREAUS AS OF DECEMBER, 1948

THIS MAP DOES NOT SHOW IRRIGATION DISTRICT OR MUNICIPAL POWER PLANTS THAT MAY HAVE BEEN FINANCED IN WHOLE OR IN PART BY FEDERAL FUNDS

THIS MAP DOES NOT SHOW IRRIGATION DISTRICT OR MUNICIPAL POWER PLANTS THAT MAY HAVE BEEN FINANCED IN WHOLE OR IN PART BY FEDERAL FUNDS



Courtesy, Edison Electric Institute Bulletin

## PUBLIC UTILITIES FORTNIGHTLY

flood-control dams may be used "incidentally" to generate electricity as a "by-product," and that the government may sell this "incidental" power.

### *Relative Earnings Trends for Electric and Gas Utilities*

THE Federal Power Commission bulletin for October shows an increase of 15 per cent in the net income for all class A electric utilities, while the natural gas companies showed a decline of 8.2 per cent. For the twelve months ended October 31st electric net income gained 15.7 per cent, while the natural gas companies gained only 5.3 per cent. The contrast between the two utility groups is interesting, in view of the earlier popularity of the natural gas companies as "growth" companies in the 1948 stock market.

One important factor which aided the electric utilities had the opposite effect on the gas companies—lower prices for fuel oil. Fuel costs for the electric utilities were down 18 per cent in October against a decrease of only 2.7 per cent in output. Some of the gas companies, on the other hand, suffered from loss of income from by-products, particularly oil and natural gasoline. The gas companies have also been affected somewhat by warm weather conditions, which curtailed the profitable house-heating load. Industrial sales have doubtless been affected by strike conditions, and such sales are more important profitwise to the gas companies than to the electric.

Both segments of the utility industry have been expanding rapidly. Gross gas utility plant aggregated \$3,364,000,000 on October 31, 1949, an increase of 14.3 per cent over last year. Gross electric utility plant on the same date was \$16,923,000,000, a gain of 11.1 per cent. Possibly the gas industry has expanded a little too fast for its market; sales in thousands of cubic feet in the month of October gained only 4.8 per cent and revenues 4.7 per cent over last year, although for the 12-month period the gains were 13.8 per cent and 12.9 per cent, respectively.

### *Current "Return on the Rate Base"*

THE ratios in the table below, showing the approximate rate of return on the estimated rate base, may be of interest.

In the twelve months ending October 31st, the electric utilities reported "other utility operating income" of \$56,671,000. The rate base for gas and miscellaneous services may be estimated (on the basis of the 1948 balance sheet) at about \$2 billion. On this basis the return on these operations was only about 2.8 per cent. The average return on an over-all basis works out at only about 5½ per cent. Thus, despite this year's gains in earnings, the utilities are still "underpaid," since 6-6½ per cent is considered a fair return.

It is estimated that some \$2-\$3 billion has been written off the electric utility



	<i>A and B Electric Companies</i>	<i>A and B Natural Gas Companies</i>
Net Plant Account:		
October 31, 1949 .....	\$13,320	\$2,438
October 31, 1948 .....	11,888	2,073
Mean for Year Ended 10/31/49 .....	12,604	2,256
Add 5% for Estimated Working Capital ...	630	113
Estimated Rate Base .....	\$13,234	\$2,369
Utility Operating Income for Twelve Months Ended 10/31/49 .....	878	166
Estimated Return on Rate Base .....	6.6%	7.0%

## FINANCIAL NEWS AND COMMENT

books in the past decade, part of this representing so-called write-ups and part legitimate purchase cost. Assuming that these write-offs had not been made the net plant account might approximate \$19 billion, and the return on this amount would be under 5 per cent. If write-ups alone had been eliminated, net return on net investment might approximate 5½ per cent.

### *Tax Dangers Ahead?*

THE electric utility industry had a good year in 1949 despite irregularities in industrial business due to strikes, etc. The table below shows the percentages gained for each month of 1949 as compared with the corresponding month last year.

So far as the investor is concerned, the payoff of prosperity is higher dividend rates. Dividend payments of the electric utilities are not reported monthly but are available in special quarterly FPC bulletins. In the third quarter of 1949 preferred dividend payments were up 7 per cent, and dividends on common stocks increased 20 per cent; for the twelve months ended September the increases were 4 per cent and 10 per cent, respectively.

However, these figures must be adjusted for the increased amount of stock outstanding, which is a difficult procedure. During the calendar year 1949 it is estimated that the electric utility companies sold about \$150,000,000 pre-

ferred stocks and \$335,000,000 common stocks (new money financing). These figures compare with \$2,179,000,000 of preferred stock and \$5,636,000,000 common stock equity outstanding at the end of 1948. These figures seem to indicate a 1949 gain of 7 per cent in the outstanding amount of preferred stock, and about 6 per cent in the amount of common stock. Thus the increase in the amount of preferred dividends corresponded to the increased amount of stock outstanding; and similar adjustment for outstanding common stock would reduce the net gain in the dividend rate to about 14 per cent.

THIS figure is probably too high for old-line operating company stocks held by the public, and the increase seems largely accounted for by companies emerging from holding company control, which have frequently raised their dividend rate after leaving the holding company. Southern Company, for example, is now paying 25 per cent more than when it was under Commonwealth & Southern control.

Such dividend increases by newcomers are sometimes designed to stir market interest and pave the way for necessary common stock financing. In any event, investors are faring somewhat better this year than last, though many of the big companies, such as Consolidated Edison, Pacific Gas and Electric, Consolidated Gas of Baltimore, Detroit Edison, and others, are maintaining their traditional dividend rates.



1949	No. of Cust.	Resi- dential KWH	All KWH	Total Revenues	Net Income
January .....	4.7%	12.1%	7.2%	9.1%	11.9%
February .....	4.8	14.1	8.6	11.6	6.1
March .....	4.7	12.8	2.7	6.4	13.1
April .....	4.7	13.4	3.8	7.0	16.7
May .....	4.7	11.4	0.4	6.5	11.7
June .....	4.6	13.5	1.0	5.9	21.7
July .....	4.4	14.8	2.0	6.1	25.1
August .....	4.4	15.7	2.3	5.1	19.1
September .....	4.2	13.5	0.4	2.7	20.0
October .....	4.1	12.8	D2.7	1.4	15.0

D—Decrease.

## PUBLIC UTILITIES FORTNIGHTLY

Can this uptrend in earnings and dividends continue through 1950, permitting the utility companies again to finance a reasonable proportion of their construction programs through equity issues? Residential sales, the mainstay of electric utility growth, will continue to gain, though perhaps not at the 1949 rate; the scheduled housing program almost guarantees this. Fuel prices may rise a little due to the continuing coal strike, but the rapid installation of new generating plants should offset this factor. The unpredictable item is the Federal tax levy on utility income. Federal income taxes in the third quarter of 1949 were up \$17,000,000 or 25 per cent—a faster rate of gain than that of net income. An increase in the corporate tax rate from the present 38 per cent to say 45 per cent (the increase which was talked about last spring) would mean a further increase of 18 per cent in Federal income taxes—about \$60,000,000 per annum or \$5,000,000 monthly.

**T**HIS would wipe out two-thirds of the increase in net income for October and reduce share earnings as compared with previous figures. This would make it very difficult to do equity financing on the 1949 scale. New issues of common stock might have to be sold at lower price levels, thus penalizing stockholders who bought in 1949. Banking syndicates, which have been eagerly bidding the current market price for the privilege of underwriting new utility equity offerings to stockholders, will no longer be so

anxious to guarantee these issues, and the cost of equity financing may rise sharply.

There will be a concerted move to reduce or wipe out the so-called nuisance or excise taxes next spring. People are tired of paying 15-25 per cent taxes on telephone bills, handbags, railway tickets, theater admissions, etc. But if these taxes are to be dropped how can we avoid heavier deficit financing—except by economies, which apparently no one wants except Mr. Hoover and Senator Byrd? Likewise no one, in an election year, would have the hardihood to raise personal income tax rates. The all too convenient answer is to raise the corporate tax rate.

If this occurs, the utility companies should press for compensating tax adjustments, such as accelerated depreciation, exemption from double taxation of dividends, etc. Whether or not there is a shortage of electric power (as public power interests contend), any increase in Federal taxes on corporate incomes should not be allowed to interfere with the vitally important construction program of the private utilities. A setback in earnings would mean dividend cuts instead of increases, a decline in market interest in the utility issues, and a resulting lag in equity financing and in construction plans.

The electric and gas utilities last year accounted for about one-sixth of all construction work by American business, and in 1950 the proportion may be even higher, since industrial expansion of

### CURRENT COST OF UTILITY FINANCING

*Yields on Various Types of Utility Securities*

	Recent	1949 Range		1948 Range	
		High	Low	High	Low
*Government Bonds—Tax Exempt .....	1.36% <sup>b</sup>	1.82%	1.36%	2.08%	1.68%
—Taxable .....	2.14 <sup>b</sup>	2.40	2.14	2.44	2.38
*Utility Bonds—Aaa .....	2.57 <sup>a</sup>	2.77	2.56	2.90	2.72
—Aa .....	2.65 <sup>a</sup>	2.84	2.64	3.01	2.82
—A .....	2.77 <sup>a</sup>	3.02	2.77	3.09	2.92
—Baa .....	3.16 <sup>a</sup>	3.45	3.15	3.49	3.26
Utility Pref. Stocks—High Grade .....	3.83 <sup>a</sup>	4.02	3.80	4.20	3.88
—Medium Grade ...	4.19 <sup>a</sup>	4.57	4.19	4.65	4.44
Utility Common Stocks .....	5.58 <sup>b</sup>	6.26	5.58	6.41	5.48

\*Long Term. a—Moody Index. b—Standard & Poor's Index.

## FINANCIAL NEWS AND COMMENT

facilities is now tapering off. The utilities are thus an important factor in maintaining national prosperity at a high level, and should receive tax consideration from the administration for this reason, if for no other.



### CURRENT UTILITY STATISTICS AND RATIOS

	Unit Used	Amount Latest Month	Latest 12 Mos.	Per Cent Latest Month	Increase Latest 12 Mos.
<b>Operating Statistics (October)</b>					
Output KWH—Total .....	Bill. KWH	24.3	290.3	D 4%	4%
Hydro Generated .....	"	6.9	—	16	—
Fuel Generated .....	"	17.4	—	—	—
Capacity .....	Mill. KW	61.2	—	11	—
Customers, no. ....	Mill.	42.5	—	5	—
Fuel Use: Coal .....	Mill. tons	6.6	—	D28	—
Gas .....	Mill. MCF	55.4	—	22	—
Oil .....	Mill. bbls.	6.7	—	104	—
Coal Stocks .....	Mill. tons	23.9	—	D10	—
<b>Sales, Revenues, and Rates (October)</b>					
KWH Sales—Residential .....	Bill. KWH	3.6	44	13	13
Commercial .....	"	3.0	36	8	9
Industrial .....	"	8.2	104	D11	D1
Total, incl. misc. ....	"	20.8	256	D3	3
Revenues—Residential .....	Mill. \$	111	1,326	11	11
Commercial .....	"	86	1,012	6	9
Industrial .....	"	98	1,213	D7	3
Total, incl. misc. sales .....	"	358	4,302	1	7
<b>Revenues and Income (October)</b>					
Elec. Rev., incl. misc. rev. ....	"	362	4,353	1	7
Misc. Income .....	"	5	128	29	15
<b>Expenditures (October)</b>					
Fuel .....	"	59	721	D18	D5
Labor .....	"	72	850	5	7
Misc. Expenses .....	"	64	752	D1	4
Depreciation .....	"	32	377	5	6
Taxes .....	"	63	780	11	13
Interest .....	"	21	238	12	15
Amortization, etc. ....	"	1	21	D35	D35
<b>Earnings and Dividends (October)</b>					
Net Income .....	"	55	742	15	16
Preferred Div. (est.) .....	"	9	105	4	2
Bal. for Common Stock (est.) .....	"	46	637	18	19
Common Dividends (est.) .....	"	38	465	2	9
Balance to Surplus (est.) .....	"	8	172	700	142
<b>Utility Financing (November)*</b>					
Bonds .....	"	88	1,904**	D59	D11
Stocks .....	"	50	614**	354	77
Total .....	"	138	2,518**	D39	1
<b>Life Insurance Investments (January 1st-December 17th)</b>					
Utility Bonds .....	"	—	934	—	D29
Utility Stocks .....	"	—	96	—	216
Total .....	"	—	1,030	—	D23
% of All Investments .....	"	—	18%	—	D12

D—Decrease. \*Data for all utilities (electric, gas, telephone, etc.), including refunding issues. \*\*Eleven months ended November 30th.

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## RECENT FINANCIAL DATA ON GAS COMPANY STOCKS

	12/27/49	Indicated	Approx.	Share	Earnings	Price		
	Price	Dividend	Yield	12 Mos.	Cur.	Prev.		
	About	Rate		Ended	Period	Period		
						% In-		
						crease		
						Ratio		
<b>Natural Gas—Retail</b>								
C Arkansas Natural Gas .....	12	\$ .60	5.0%	Dec.	\$1.44	\$ .80	80	8.3
O Atlanta Gas Light .....	21	1.20	5.7	Sept.	1.71	1.79	D5	12.3
S Columbia Gas System .....	13	.75	5.8	Sept.	.88**	.98**	D10	14.8
C Consol. Gas Util. ....	14	.75	5.4	July	1.72	1.55	11	8.1
S Consol. Nat. Gas .....	43	2.00	4.7	Sept.	3.51	3.75	D6	12.3
O Indiana Gas & Water .....	19	1.20	6.3	Oct.	1.70	1.35	25	11.2
O Kansas-Neb. Nat. Gas .....	17	1.00	5.9	Dec.	1.70	1.36	25	10.0
*S Laclede Gas Light .....	7	.20	2.9	Sept.	.84	—	—	8.3
C Lone Star Gas .....	26	1.20	4.6	Sept.	1.74	2.23	D22	14.9
O Minneapolis Gas .....	16	.80	5.0	Dec.	1.03	1.10	D6	15.5
O Mobile Gas Service .....	25	1.50	6.0	Sept.	2.05	2.77	D26	12.2
S Montana-Dakota Util. ....	13½	.80	5.9	Sept.	1.36	1.27	7	9.9
*O National Gas & Elec. ....	9	.55	6.1	Dec.	1.51	1.64	D8	6.0
C Okla. Natural Gas .....	35	2.00	5.7	Oct.	3.20**	3.41**	D6	10.9
S Pacific Lighting .....	53	3.00	5.7	Sept.	3.18**	4.55**	D30	16.7
C Pacific Pub. Serv. ....	15	1.00	6.7	Dec.	2.43	1.91	28	6.2
*S Peoples Gas L. & C. ....	130	6.00	4.6	Sept.	11.76	9.85	19	11.1
C Rio Grande Valley .....	2	.12	6.0	Dec.	.20	.21	D5	10.0
O Rockland Gas .....	31	1.70	5.5	Dec.	2.73	3.36	D19	11.4
O Southern Union Gas .....	23	.80	3.5	June	1.53PF	—	—	15.0
O Southwest Nat. Gas .....	5	.20	4.0	Sept.	.33	.31	7	15.2
S United Gas .....	19	1.00	5.3	Sept.	1.30	1.78	D27	14.6
S Washington Gas Light ....	25	1.50	6.0	Oct.	1.12**	1.87**	D40	22.3
Averages .....			5.3%					12.3
<b>Natural Gas—Wholesale and Pipeline</b>								
S American Natural Gas ....	33	\$1.20	3.6%	Sept.	\$1.71	\$ .33	418	19.3
S El Paso Nat. Gas .....	27	1.20	4.4	Oct.	1.90**	2.27**	D16	14.2
O Interstate Nat. Gas .....	30	2.00	6.7	Dec.	2.03	1.71	19	14.8
O Mississippi Riv. Fuel .....	37	2.00	5.4	Sept.	2.48	—	—	14.9
O Mountain Fuel Supply ....	24	.60	2.5	Dec.	.91	.94	D3	26.4
S Northern Nat. Gas .....	39	1.95	5.0	Sept.	2.74**	2.42**	13	14.2
S Panhandle East. P.L. ....	74	3.25	4.4	Sept.	4.71	4.79	D2	15.7
O Republic Natural Gas .....	41	1.00	2.4	June	3.03	2.72	11	13.5
S Southern Nat. Gas .....	36	2.00	5.6	Sept.	3.00	2.76	9	12.0
O Tenn. Gas Trans. ....	28	1.40&Stk.5.0		Sept.	1.68**	1.06**	58	16.7
Averages .....			4.9%					17.7
<b>Manufactured Gas—Retail</b>								
C Bridgeport Gas .....	23	\$1.40	6.1%	Dec.	\$1.60	\$1.69	D5	14.4
O Brockton Gas Lt. ....	17	1.00	5.9	Dec.	.43	1.00	D11	—
S Brooklyn Union Gas .....	39	1.60	4.1	Sept.	3.58†	—	—	—
O Hartford Gas .....	34	2.00	5.9	Dec.	1.85	2.10	D12	18.4
O Haverhill Gas Lt. ....	27	1.60	5.9	Oct.	2.21	1.42	56	12.2
O Jacksonville Gas .....	31	1.40	4.5	Dec.	6.06	5.64	7	5.1
C Kings County Ltg. ....	7	.40	5.7	Sept.	.33†	—	—	—
O New Haven Gas Light ....	28	1.60	5.7	Dec.	1.76	1.77	—	15.9
O Providence Gas .....	9	.60	6.7	Dec.	.73	.64	14	12.3
O Seattle Gas .....	13	.35	2.7	June	1.01	.44	130	12.9
S United Gas Improvement ..	27	1.30	4.8	Sept.	1.89	2.00	D6	14.3
Averages .....			5.3%					13.2

D—Decrease or deficit. E—Estimated. C—Curb Exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. \*Company serves mixed gas but the trend in most cases is toward greater use of natural gas, hence we have dropped the separate classification. PF—Pro forma. †—Nine months ended September 30, 1949. \*\*Earnings are based on present number of shares outstanding. ‡—Seven months ended July 31st.



# FINANCIAL NEWS AND COMMENT

## RECENT FINANCIAL DATA ON TELEPHONE, TRANSIT, AND WATER STOCKS

	12/27/49 Price About	Indicated Dividend Rate	Approx. Yield	Share Ended	Earnings Cur. Period	Earnings Prev. Period	% In- crease	Price- Earnings Ratio
<b>Telephone Companies</b>								
<i>Bell System</i>								
S Amer. Tel. & Tel. ....	146	\$9.00	6.2%	Aug.	\$8.91	\$9.94	D10	16.4
O Cinn. & Sub. Bell Tel. ....	73	4.50	6.2	Dec.	3.76	3.85	D5	19.4
C Mountain Sts. T. & T. ....	103	6.00	5.8	Sept.	6.04*	5.25*	15	17.1
C New England Tel. ....	95	4.75	5.0	Sept.	5.85	4.72	24	16.2
S Pacific Tel. & Tel. ....	100	7.00	7.0	Aug.	6.08*	5.36*	13	16.4
O So. New Eng. Tel. ....	32	1.60	5.0	Dec.	2.22	.94	136	14.4
Averages .....			5.9%					16.7
<i>Independents</i>								
S General Telephone ....	29	\$2.00	6.9%	Sept.	\$2.29	\$2.28	—	12.7
C Peninsular Tel. ....	45	2.50	5.6	Dec.	5.66	5.25	8	8.0
O Rochester Tel. ....	12	.80	6.7	Dec.	.80	.47	70	15.0
<b>Transit Companies</b>								
O Chicago S.S. & S.B. ....	8	\$1.00	12.5%	Dec.	\$1.40	\$1.38	1	5.7
O Cinn. St. Ry. ....	5	.30	6.0	Dec.	.77	1.57	D51	6.5
O Dallas Ry. & Term. ....	11	1.40	12.7	Dec.	2.27	3.39	D33	4.8
O Duluth Sup. Trans. ....	9	1.00	11.0	Dec.	.44	2.75	D84	20.5
O Los Angeles Transit ....	4½	.50	11.1	Dec.	.93	.87	7	4.8
S Nat'l. City Lines ....	8	.50	6.3	Dec.	1.97	1.57	25	4.1
O Phila. Transit ....	3	—	—	Dec.	1.03	.31	232	2.9
O St. Louis Pub. Ser. A ....	5	—	—	Dec.	.70	.37	89	7.1
O Syracuse Transit ....	17	2.00	11.8	Dec.	1.40	3.52	D60	15.0
S Twin City Rapid Tr. ....	9	—	—	—	.39	.62	D37	23.1
O United Transit ....	2	—	—	Dec.	.13	.21	D38	15.4
Averages .....			10.2%					10.0
<b>Water Companies</b>								
<i>Holding Companies</i>								
S Amer. Water Works ....	8	\$ .60	7.5%	Sept.	\$ .82	\$ .74	11	9.8
O N.Y. Water Service ....	75	2.00	2.7	Sept.	7.49	2.89	159	10.0
O Northeastern Water ....	15	—	—	Sept.	1.37	.34	300	10.9
<i>Operating Companies</i>								
O Bridgeport Hydraulic ....	32	\$1.60	5.0%	Dec.	\$1.62*	\$1.65*	D2	19.8
O Calif. Water Serv. ....	28	2.00	7.1	Oct.	2.73	2.55	7	10.3
O Elizabethtown Water ....	105	6.00	5.7	Dec.	6.89	7.33	D6	15.2
S Hackensack Water ....	41	1.70	4.1	Dec.	2.79	3.08	D9	14.7
O Indianapolis Water ....	17	.80	4.7	Dec.	1.42	1.19	19	12.0
O Jamaica Water Supply ....	21	—	—	June	1.19	2.81	D58	17.6
O Middlesex Water ....	57	3.00	5.3	Dec.	4.94	5.71	D13	11.5
O New Haven Water ....	60	3.00	5.0	Dec.	3.61	3.34	8	16.6
O Ohio Water Serv. ....	20	1.50	7.5	Sept.	2.00	2.31	D13	10.0
O Phila. & Sub. Water ....	22	.80	3.6	Dec.	3.01	2.70	11	7.3
O Plainfield Union Wt. ....	67	4.00	6.0	Dec.	5.02	4.74	6	13.3
O San Jose Water ....	31	2.00	6.5	Oct.	2.93**	2.62**	12	10.6
O Scranton-Spring Brook ....	11	.70	6.4	Aug.	.81	.85	D5	13.6
O Southern Cal. Water ....	45	3.25	7.2	June	3.73	5.42	D31	12.1
O Stamford Water ....	56	2.00	3.6	Dec.	2.21	2.27	D3	25.3
O West Va. Water Serv. ....	17	1.00	5.9	Sept.	1.51	1.37	10	11.3
Averages .....			5.6%					13.8

D—Deficit. E—Estimated. C—Curb Exchange. O—Over-counter or out-of-town exchange.  
S—New York Stock Exchange. \*Based on present number of shares now outstanding.



# What Others Think

## Mid-century Review and Forecast Forum



UTILITY engineers will find a wealth of technical electric engineering information of a review and forecast nature in the papers presented at the Westinghouse mid-century review and forecast forum held recently in Pittsburgh. The papers, which appear as articles in the January 1, 1950, issue of the *Westinghouse Engineer*, consider the engineering progress made in the industry during the first half of the century and probe into the future for even greater accomplishments which can be expected during the remaining half of the century.

Editors from leading electrical publications and news services of the country heard top Westinghouse men, recognized authorities in their fields, trace the progress of the electric industry in such important segments as central power station generation, alternating current generation, switch gear development, transformers, electronics, research, and light. In all the fields discussed the experts give the reader the benefit of their background and experience in informing him of what can be expected in the way of coming developments in the industry.

In summarizing what may be expected during the coming half-century A. C. Monteith, vice president in charge of engineering (Westinghouse) and leader of the forum discussion, declares:

The second half of the twentieth century will see not just an extension of our traditional classes of apparatus,

such as turbines, generators, motors, and switch gear. New fields and new kinds of things will come into view. We are only at the beginning of the road to atomic energy. While the engineering problems to the commercial utilization of atomic energy at this point seem formidable, none of us doubt that in the half-century ahead, atomic energy will take a very large and important place in the peaceful pursuits of man. The Westinghouse company, as you know, already has a large-scale development program under way for the Navy, out of which will come the basic information for commercial use of atomic energy.

The growing pipe-line industry comes in for mention in future development when Monteith says that the gas turbine, which is only beginning to make itself felt, will have several fields of application, particularly in connection with our growing pipe-line transportation system. It still has material problems yet to be solved but it is definitely known that it is a fundamentally new tool whose potentialities have hardly been explored. The electric company executive concludes by saying that, since electric power use has doubled every twelve years since 1900, expectations for the future must include at least a several fold increase by the year 2000, if not a continuation of the present rate of increase, which would amount to sixteenfold.

### A Conservative's View of Our Current Dilemma

THE author, John T. Flynn, makes a convincing case pointing up the view that the United States is being led down the road toward the total socialist

state by men who have disguised the fact that they are Socialists. He uses the history of the British Fabian socialist movement (Sidney and Beatrice Webb)

## WHAT OTHERS THINK

to show how we may parallel the British in our own near-future history. The time of triumph of these "hooded Socialists" is seen to be near at hand unless swift measures are taken to repulse their influence. Flynn advises that freedom be put first; that we stop apologizing for our capitalist system and get rid of our leaders who are willing to compromise with socialist ideas.

Says Flynn: "We are being drawn into Socialism . . . by a coalition of politicians and revolutionary crusaders . . . with the aid of the ignorance of the American businessman and politician . . ." His alternative: "We cannot depend on any political party to save us. We must build a power outside the parties so strong that the parties will be compelled to yield to its demands." The appeal is made to use the forces of public opinion to ward off the threat, and to start now, for *it is later than you think*. Flynn's argument is supported by the inroads made upon the economy of America by government controls and encouragement of public ownership. He cites control of electric power production as one of three basic economic

factors, which, if controlled by government, will lead to the complete regimentation of industry. From there the snowball gathers momentum until every facet of economic life, including labor, is a fair target for government compulsion.

**T**HIS book has become a "best seller." Its influence will grow if it can be widely disseminated. The Committee for Constitutional Government (New York city) is devoting every effort toward that goal. It has produced a low-cost fiber bound edition of this book, which will aid professional men and women, executives, and the key people in thought-molding agencies, in getting this book into the front line where it is needed. Multiple copies of the inexpensive edition are available at very attractive promotional rates from the committee's offices (205 East 42nd street, New York city). The more handsome cloth-bound personal edition can be obtained from either the publisher or the committee.

**THE ROAD AHEAD: AMERICA'S CREEPING REVOLUTION.** By John T. Flynn. Published by Devin-Adair Co., New York 10, New York. 1949. Price \$2.50.

## A "Liberal" Economic Program

**F**ORTNIGHTLY readers may be interested in this collection of 31 essays because they represent the proposals of some 24 of our most progressive "liberals." Some of them are currently billed as "dark horses" for various candidacies or for possible appointment to important government posts. The leading essay is by Connecticut's governor and former OPA head, Chester Bowles. The Bowles keynote is entitled "Blueprints for a Second New Deal." The subsequent platform includes: public housing; high taxes in booms; low taxes during depressions; "better" conservation of natural resources; strong antitrust action; monetary policy and control; development of regional resources along TVA lines; "improved" social security; and "economic expansion." In this latter, along the lines of legislation already introduced in the

81st Congress, Bowles follows recent Fair Deal suggestions that the prerogatives of management be further delegated to government. He advises:

Government could, for instance, establish production goals for basic industries where production restraints are holding down output. These goals would be based on the needs of our economy operating on a basis of full production and full employment. If these goals cannot be met by existing privately owned industries within a reasonable period, government would fill in the production gap by establishing its own plants.

Bowles proposes to "balance" "big industry," "big agriculture," and "big labor" with even bigger government. Other contributors to this work who will be well

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known to FORTNIGHTLY readers are: Morris L. Cooke, early REA Administrator and public power exponent, and Carlton L. Nau, general manager of the American Public Power Association. They propose that the government must institute an even greater program.

ONE of the better essays in the collection is by Leon H. Keyserling, vice chairman of the President's Council of Economic Advisers. He betrays some doubts about the efficacy of New Deal patent medicines. He admits:

But while the record of the last depression alerts us to the danger, it does not provide us with a complete remedy. The most significant lesson we can learn from the past is that we have not yet learned enough. Without underestimating the far-reaching social legislation (for example, old-age insurance) and permanent economic programs (for example, securities regulation) that were initiated during the thirties, we must recognize that the recovery, strictly speaking, was not complete until the advent of the defense program in 1939-40. In fact, by the middle of 1937, we were again on the economic downgrade for a spell.

Keyserling assigns a very important rôle to government, but he seems to believe (more than the other contributors) in private enterprise. He does not hold the opinion that private enterprise alone is sufficient to conduct the American economy. He is in favor of a mixed economy, partly controlled and partly free, but he has doubts whether the instrumentalities necessary to achieve his ideal have yet been forged. All the contributors are Keynesian thinkers.

All of the authors would, they say, preserve our basic capitalist institutions. But all are characteristic of their school of thought in that they believe the system needs some major overhauling before it is to be considered worth saving. Most of the authors figure that, with the increased economic commitments, the power of government over its citizens will have to be expanded. All accept as inevitable increased government controls over daily activities. Having developed their goals these would-be coaches have neglected to consider the rules, the field of action, and even the fact that there may be an opposing team on the field.

SAVING AMERICAN CAPITALISM. Edited by Seymour E. Harris. Alfred A. Knopf, New York, New York, 1948. Price \$4.

## Western Utilities in Promotion Activities

A ROTOGRAVURE excursion into the booming Northwest is available in a 48-page booklet recently published by the Pacific Power & Light Company of Portland, Oregon. In 1940 the company published a similar but smaller booklet entitled "River of the West," in which it was stated:

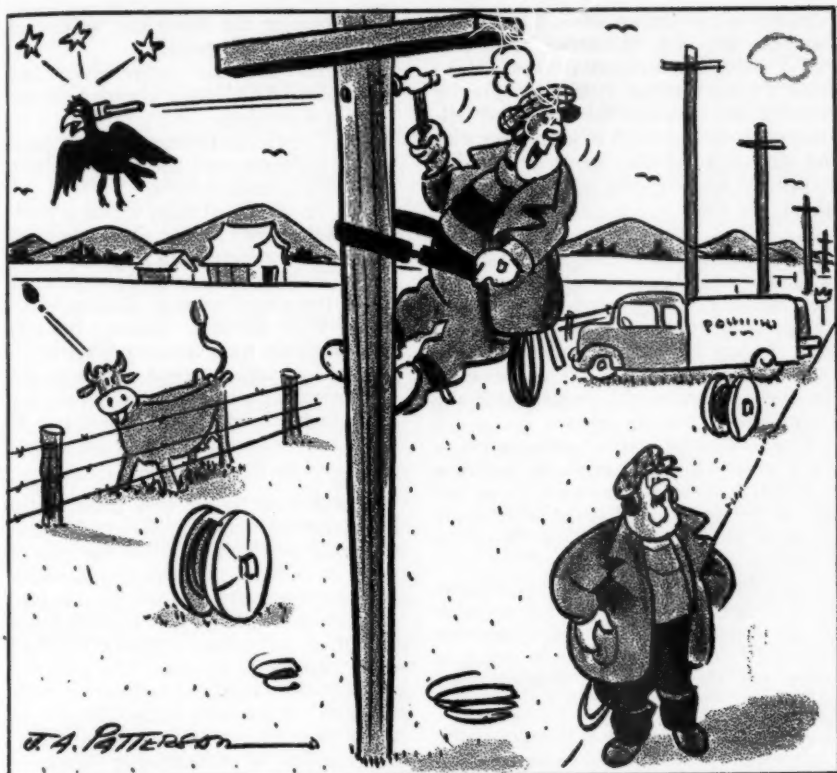
The Columbia river region is so vast a storehouse that neither this generation nor the next will see the release of its full potentialities.

The current publication, "A Region Comes of Age," tells the story of this "vast storehouse" and the remarkable contributions it is making to the economy of the nation.

In his introduction to the booklet, Paul B. McKee, president of Pacific Power & Light Company, points out the tremendous job the utility is doing in keeping up with the expanding demands of the area. He says:

More than one and a quarter million new residents came to Oregon and Washington during and since World War II, and the migration continues. Those who came to work in temporary war industries did not walk the streets when the guns fell silent. The transition to productive peacetime pursuits was quick. There were more persons employed in the two states in 1948 than in the peak war years. The de-

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"A LITTLE SHOT OF OLD CROW WOULD GO PRETTY GOOD RIGHT NOW!"

mand for power has soared to tax the full 4,000,000-kilowatt capacity of the region's interconnected electric systems. This in spite of the fact that the power plants of Oregon and Washington give the region twice as many kilowatts per capita as the average for the nation!

**T**HE information in the booklet gives the answer to this growth—Oregon ranks first and Washington third in U. S. population increase since 1940—farm receipts are up 321 per cent in ten years—payrolls are up 226 per cent since 1940.

Striking pictures of industry, and agriculture at work, plus supporting facts and figures, tell this interesting story of what these two states are producing:

Forty-seven per cent of U. S. aluminum.

Sixty-seven per cent of the nation's plywood.

Forty per cent of its saw timber.

Sixteen per cent of U. S. wood pulp.

One-third of the frozen fruits and vegetables.

Seventy-two per cent of the canned pears.

Thirty-one per cent of the prunes.

Two-thirds of the nation's canned sweet cherries.

Thirty-two per cent of the U. S. apples.

Ninety-eight per cent of the salmon pack—exclusive of Alaska.

Some idea of the westward trend of



## PUBLIC UTILITIES FORTNIGHTLY

business is also shown when it is pointed out that 461 new industries started in the Portland metropolitan area alone from VJ-day through 1948, necessitating the chamber of commerce to expand full-time engineering staffs to keep pace with the demands of the westward-moving industries seeking data and information about the area.

**A**NOTHER western utility, the Central Arizona Power & Light Company, has recently inaugurated a live wire "Back in Action" campaign to coöperate with dealers in moving appliances. The plan is described in a kit of booklets designed to imbue the reader with the enthusiasm of the campaign.

Close "dealer-Calapco" coöperation is the keynote of the program, with utility residential salesmen making calls on behalf of the dealers and space being made available for dealer displays in the utility company showrooms.

Once a year company salesmen or home service representatives will call on each of the company's residential customers and small commercial users in order to carry out the following 6-point sales policy:

1. To sell the value of Calapco to the community as a locally managed, tax-paying, privately owned business enterprise, and the advantages of

maintaining the American system of competitive enterprise.

2. To sell the convenience and economy of Calapco's cheaper electric and gas services.

3. To sell the increased use of present appliances and the need for new appliances and devices.

4. To direct all sales through trade channels to our dealer allies wherever aggressive selling help is given us.

5. To sell directly to the customers only those appliances or devices which may not, for any reason, be sold aggressively by a dealer organization.

6. To conduct special campaign and promotional activities aimed at the low use and minimum bill customers, in order to encourage greater use of our services by these classes.

**A**s evidenced by the first point of the program and the preface to the master booklet—which describes the plan in detail as well as the company facilities and the community as a whole—the plan will consist in a large part of selling free enterprise and company public relations to the citizens of the area. The program is designed to combine business promotion with the generally acknowledged job confronting all utilities—that of selling the benefits of maintaining business-managed enterprise in its traditional place in the American scene.

## A Program of Action

**A** CONSIDERATION of the human factor in business should go a long way in solving the two most pressing problems facing the nation, according to the remarks made by Dr. Adam S. Bennion, vice president of the Utah Power & Light Company, before the recent Congress of American Industry, held in New York city.

The problems which were cited by a combined group of college men and business leaders are:

1. The trend toward socialization.
2. The strife between management and labor.

According to Dr. Bennion's statement:

Both of them involve people. Both of them center in human relationships. In both of them the human factor is paramount.

In prefacing his discussion of the two problems, the utility executive contrasted the American Way of Life with conditions as they exist in Europe today. He cited the fact that in England, our mother country from whom we learned so much about freedom, a steady trend of nationalization of industry is going on. In this connection he commended the following



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dates to his listeners' consideration:

March 1, 1946—Bank of England nationalized.

July 12, 1946—Coal mining industry nationalized.

August 1, 1946—Civil aviation nationalized.

January 1, 1948—Inland transportation nationalized.

April 1, 1948—Electric utilities nationalized.

July 5, 1948—Insurance nationalized.

July 5, 1948—Health services nationalized.

At present a bill to nationalize the iron and steel industry is before Parliament.

He quoted Britain's Ernest Bevin who said: "The United States will follow Britain's example and embrace Socialism" (April 15, 1949); and "The United States is as much a *welfare state* as we are, only in a different form." (July 18, 1949.)

**I**N referring to the human factor subject, Bennion brought out the fact that our country, having turned from an agrarian way of life to an urban and industrial one by capitalizing on its wonderful achievements in the realms of engineering, accounting, and management, is now confronted with its most vexing problem—one which was inherent in our more simple existence; namely, that of getting along with one another.

Dr. Bennion then turned to a discussion of the two most pressing problems by dealing first with the management *versus* labor one.

He stated that management and labor can carry forward their relationships on one of three levels:

The level of the strike.

The level of arbitration.

The level of mutual cooperation.

The strike level is seen as an utterly primitive solution in which both sides lose and the arbitration level admits of failure on the part of both parties, throwing the problem into the hands of a third party.

Of socialization, Dr. Bennion says:

Other nations have featured 5-year plans—perhaps that's what America needs—a plan designed to regenerate a true spirit of liberty and self-reliance in this land of ours.

**I**N this connection, Bennion offered a plan of action—one which his company has been using for the past two years. Last year the program was dedicated to an appreciation of Americanism and what it really means in our lives. Dinner meetings for all the employees and their wives inaugurated the program. A film put out by the Kelvinator Company, "Of This We Are Proud," was shown and the famous Freedom Train documents exhibited. At suitable intervals during the year each employee was provided with four pamphlets:

"Good Citizen"—Published by the American Heritage Foundation.

"Show Me Any Other Country" by Betty Knowles Hart. Published by The Foundation for Economic Education, Inc.

"The Free Enterprise System" by Phelps Adams. Published by the National Association of Manufacturers.

"Lest We Forget" by H. W. Prentis, Jr. Published by Armstrong Cork Company of Lancaster, Pennsylvania.

Each month during the year every employee received at his home a copy of the American Legion pamphlet, "Our American Way of Life."

During the coming year the company intends to continue its information program directed more specifically to the problems of the electric light and power industry. Ninety-two discussion groups have been formed, with leaders trained by the executives of the company. Pertinent subjects are scheduled for discussion during a 6-month period. Having once armed the employees with the facts with which to counter socialistic arguments it is hoped that they will go out into their own social groups and clubs and make clear the attitude and the aspirations of the industry as it faces the vexing problems of the day.



# The March of Events

## In General

### Sixteen Fellowships Offered

**T**HE Institute of Gas Technology, as part of its educational program, is offering sixteen 2-year fellowships, effective September, 1950, to qualified college seniors and graduates for the specific purpose of preparing a selected group for careers in the gas industry through graduate study, field training, and research leading to the degrees of Master of Gas Technology.

Students in the upper fifth of their classes in chemistry, chemical or mechanical engineering, or related fields may apply. Additional qualifications include United States citizenship, age under twenty-eight, adaptability, cooperation, and high moral character.

Fellows will be paid a cost-of-living stipend, currently \$125, in each of the ten months of the academic year, in addition to the remittance of tuition and fees amounting to approximately \$550 per year.

Gas industry employment during the summer preceding entrance in the institute is available, and accepted candidates are urged to utilize this opportunity for an early acquaintance with the industry. During this optional period and the required summer training periods, the fel-

lows are paid by the cooperating gas companies an amount comparable to that paid cadet engineers.

Application forms and further information may be obtained from the student's departmental chairman or from the director, Institute of Gas Technology, 3300 South Federal street, Chicago 6, Illinois.

### BPA to Need Fund Hike

**R**EPRESENTATIVE Henry Jackson (Democrat, Washington) in an interview last month in Seattle, Washington, said that the Bonneville Power Administration will need an increase of about one-third in its appropriations for the next fiscal year if it is to meet power needs of the Pacific Northwest.

Jackson is a member of the 5-member committee on Interior Department appropriations.

He said the probable Budget Bureau requests for Bonneville would be: new cash appropriations, \$25,000,000; new contract authorization, \$27,000,000; appropriation to pay for work done under previous contract authorizations, \$17,000,000.

The \$69,000,000 total compares with \$46,524,000 for the present year.

## California

### Commission Files Report

**T**HE California Public Utilities Commission last month reported the state's utilities have undertaken a tremendous expansion program in the last

few years to meet the rapid growth in population.

In its annual report, filed with Governor Earl Warren, the commission said there has been a 47 per cent gain in electric customers and a 50 per cent increase

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in gas customers during the last nine years.

It was also pointed out the number of telephones has increased from 1,765,000 to 3,456,000, an increase of 96 per cent. Commission engineers declared the huge growth in telephones is due partly to the

tremendous industrial expansion in California.

The report said the commission authorized rate increases during the last year totaling \$31,740,000. However, this was \$18,110,000, or 36 per cent less than the utilities had hoped for.

## Connecticut

### Appointment Ruled Out

**G**OVERNOR Bowles' appointment of Irston R. Barnes to succeed Frederick H. Holbrook on the state public utilities commission was ruled out recently by the state supreme court of errors. The decision affirmed the veto power of the house of representatives over appointments to the commission.

Unless Democrats can make a bargain with the traditionally Republican house, they will have difficulty with all nominations to the public utilities commission, as the court interpreted the law.

Barnes, a Hamden resident and employee of the Federal Power Commission, was nominated by the governor in the regular session of the state legislature. The house refused confirmation.

Holbrook, Madison Republican and former speaker of the house, was serving as an interim appointee of former Governor Shannon, to fill a vacancy caused by the death of Carl M. Sharpe, until the legislature should make a new appointment.

When the legislature adjourned without acting, Governor Bowles attempted

to name Barnes to serve until the 1951 session. Holbrook refused to yield the office, however. Then Barnes brought the suit which was decided against him last month.

The supreme court held that Holbrook's interim appointment, like regular appointments, falls under the statute which says that, unless otherwise provided by law, an appointee shall hold office "until his successor shall be appointed and shall have qualified."

The unanimous decision, written by Chief Justice William M. Maltbie, said, "We must reject the plaintiff's (Barnes') argument that public policy requires that members of the public utilities commission should be persons acceptable to the governor in office for the time being.

"That body performs quasi judicial functions; we must assume that in making appointments to it every governor performs his duty to select only men qualified to hold office; and we cannot believe that any public policy will be served by holding that because a member so appointed by any one governor is not acceptable to a succeeding governor he should be supplanted."

## Kentucky

### Arbitration Bill Approved

**A** BILL proposing compulsory arbitration of labor disputes in public utilities in Kentucky was approved last month by the Louisville mayor's legislative committee.

Whether Mayor Charles Farnsley of Louisville would recommend the bill for passage by the 1950 Kentucky legislature

had not been indicated at the time, however.

The proposed legislation would prohibit strikes against gas, electric, water, telephone, or transportation utilities, or lockouts by utilities.

Under the bill's provisions, the governor would appoint ten persons as conciliators and twenty as arbitrators, subject to removal at any time. On request

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of either party in a stalemated utilities-labor dispute, the governor could appoint one of the conciliators to try to bring about agreement. If such an agreement was not reached in thirty days, the gov-

ernor could name three of the arbitrators to rule on the issue. Each party to the dispute could have a representative sit with the arbitrators, but without voting power.

### Massachusetts

#### To Get New Transit Rate

**T**HE Metropolitan Transit Authority, serving Boston and 13 adjoining cities and towns, will put into effect as of January 28th a new schedule of rates estimated to produce \$4,716,048 of additional annual revenue.

New schedules provide for a minimum 10-cent fare applicable to any one of the authority's 121 surface lines, without transfer privileges. A 15-cent fare will apply to all rapid transit riding and any combination of rapid transit and surface lines with or without transfer.

Under present schedules 62.5 per cent of passengers pay a 15-cent fare, and the balance 5, 10, or 20 cents. Under the new schedules 75.5 per cent will pay 15

cents and 24.5 per cent will pay 10 cents.

The present rate schedule of 5-10-15-20 cents has been in effect since August 6, 1949. On November 27th a wage increase retroactive to July 1st, boosted service costs by \$2,300,000 a year. Sufficient time has elapsed, authority trustees state, to demonstrate that the present schedule is not capable of producing sufficient revenue to meet the cost of service.

The new schedule, subject to approval of the state department of public utilities, will produce an income which should be sufficient to allow the authority to meet cost of service on an annual basis, if economic factors do not operate to lower materially the number of riders, trustees stated.

### Missouri

#### Transit Operations Show Loss

**T**ESTIMONY that operations of the St. Louis Public Service Company in St. Louis county are showing a loss of \$750,000 a year, which could be reduced by \$250,000 to \$400,000 if the revamping of mass transportation in the county is approved by the state public service commission, was given before the state commission last month.

John C. Bain, vice president and op-

erating manager for the Public Service Company, gave the figures after taking the stand as first witness for his company. Bain testified the purpose of the plan is to eliminate 32 miles of the 43 miles of duplicating service in St. Louis county now operated by the Public Service Company and the St. Louis County Transit Company.

Bain said both companies "realize there is not enough for both in the same areas on a competitive basis."

### Nebraska

#### Municipal Power Plan Urged

**A** DRIVE was reported recently to be shaping up to convert McCook's power distribution system into a municipal operation.

John T. Harris, McCook businessman, launched the drive after learning of an invitation to bid on \$300,000 in bonds against the plant now operated by the Nebraska Public Power System.

## THE MARCH OF EVENTS

Public Power took over the McCook plant from the Nebraska Light & Power Company on a contract providing that, as soon as all indebtedness is retired from the local system, the city would take it over "on payment of \$1."

Revenues from the power plant would help pay the salary of a "top flight" city manager which McCook hopes to obtain in the spring, Harris said.

### Busses to Have Radio

OMAHANS are going to get radio programs with their bus rides. Paul

Fry, vice president and general manager of radio station KBON-FM, announced last month that in votes cast during a 2-week test in 25 radio-equipped transit busses, Omahans voted 15 to 1 in favor of the new service.

He said the station would install frequency modulation receivers in the 235 busses of the Omaha & Council Bluffs Street Railway Company. Programs are planned from 6 AM to 9 PM on weekdays and probably from noon to 9 PM Sundays. There is to be about 2½ minutes of news and commercials within a 15-minute period.

## New Hampshire

### Seeks Limit on Rate of Return

UNLEASHING another attack on the state's public utilities, State Senator Eugene S. Daniell, Jr., mayor of Franklin, renewed his demand last month that all utilities be limited by law to a 5 per cent rate of return.

Appearing as a lone "representative of the public" at a public hearing held before a legislative interim commission studying the utility laws, Daniell also called for some positive action which would prevent "complete monopoly ownership" of the state's water resources by electric companies.

The Franklin mayor's rate suggestion was similar to a bill which he introduced at the 1949 session of the legislature. His new proposal would limit "any" utility

to a 5 per cent return on its legal rate base. Any amount over this would be split 50-50 between the state's sinking fund and the utility involved.

Attorney Franklin Hollis of Concord, counsel for both the New England Telephone & Telegraph Company and the Public Service Company of New Hampshire, told the commission that he was "intrigued" by the Daniell rate limitation proposal and argued that it would result in higher rather than lower rates.

He said that "cost of money" was a controlling element in determining a utility's return and that because of the constant fluctuation in the cost of money it would be practically impossible to carry out the Daniell suggestion. Hollis warned against trying to "legislate economics."

## New York

### Accepts Chairmanship

HAROLD V. BOZELL, president of the General Telephone Corporation, has accepted the chairmanship of the communications and public utilities division of the 1950 New York Heart Campaign, it was announced recently by William C. Langley, chairman of the campaign's commerce and industry committee. The drive begins February 14th.

As chairman of the communications and public utilities division, Mr. Bozell will help organize the industry's support of the New York Heart Association's program of research, service, and education. This year's campaign goal is \$750,000 to carry forward the association's work.

Mr. Bozell is a director of the General Public Utilities Corporation and the North Electric Manufacturing Company.

## PUBLIC UTILITIES FORTNIGHTLY

### Court Backs Rate Cut

**T**HE court of appeals on December 29th ruled that the Consolidated Edison Company of New York must continue to pass on to New York city consumers a temporary 10 per cent cut in electric rates ordered by the state public service commission and in effect since January 10, 1949.

The decision keeps in effect an aggregate yearly saving of \$21,500,000 in electric bills for New Yorkers.

Counterbalancing bad news for patrons of the Staten Island Edison Corporation, a separate company, came with the state commission's decision to allow the company a permanent rate increase sufficient

to increase revenues \$300,000 annually effective January 1st. The decision climaxed six years of litigation over rates between the company and commission.

In its 5-to-2 decision, in the Consolidated Edison Case, the state's highest court reversed a ruling handed down March 14th by the appellate division, third department, which suspended the reduction order of the state commission. Action on this decision was stayed, however, pending review by the court of appeals.

A majority of the court denied the claim of Consolidated Edison counsel that the commission exceeded its legal authority in requiring the temporary reduction, pending fixation of a final permanent rate.

## Texas

### Franchise Extension Approved

**C**ORPUS CHRISTI voters last month approved by a 90-to-1 majority the request of Central Power & Light Company for an extension of its franchise until 1979. Its present franchise would have expired in 1965.

Final, unofficial tabulations showed 2,786 votes for extending the franchise, 31 votes against.

Lon C. Hill, president of CP&L, announced that the company would begin

placing its power lines in the downtown area underground "right away." Laying all the downtown power system underground would cost approximately \$3,600,000, Hill said. He said the work would start about the last of this month.

Under terms of the extension, which must be approved by the city council before becoming official, CP&L will increase its annual payment to the city by about \$35,000 more than the last twelve months' payment. The utility's rates to the city also will be lowered.

## Virginia

### Utility Taxes Proposed

**E**XTENDED authority for the imposition of local utility taxes in Virginia was proposed last month by the Virginia State Tax Study Commission as part of a complex 52-point program designed to strengthen state and local finances in the hope of averting the need for a general state sales tax.

All counties and municipalities would be permitted by one of the proposals to impose: a utility consumer's tax at a standard rate of 5 per cent; an admission tax up to 10 per cent; a motor license tax; a hotel occupancy tax up to 5 per

cent; and business and occupational license taxes.

Some of the state's larger cities and Arlington county already are imposing such local levies through the authority of special charter provisions.

Although both state and local taxes would be higher under the commission's proposals, they are intended to be less burdensome than a general sales tax.

Alexandria will begin levying a 10 per cent tax on all utility bills beginning about February 1st, it was announced recently. The new tax will be paid by users of water, gas, electricity, and telephones.





# Progress of Regulation

## Book Value Less Accrued Depreciation Approved As Rate Base for Telephone Company

THE Wisconsin Circuit Court upheld a commission order establishing rates at a somewhat lower level than requested by a telephone company. The rates authorized would afford a  $6\frac{1}{2}$  per cent return on book cost less depreciation reserve.

The utility contended that book cost, if accepted as a starting point, must be taken undepreciated. In overruling this contention, Judge Reis traced the development of various theories of evaluating utility properties for rate making.

At the outset, he pointed out that he had thought that the United States Supreme Court in the Hope Natural Gas Case (51 PUR NS 193) had finally determined that it was lawful to take book cost as a starting point in a rate base determination and deduct depreciation reserve, or a fitting part thereof if the reserve was found to be too high. However, he continued, the Supreme Court subsequently "took some of the hope out of 'Hope'" when it said in the Market Street Railway Case (58 PUR NS 18) that all the Hope Case held was that a company could not complain if the allowed return permitted it to operate successfully. Judge Reis observed that it was apparent from the commission opinion and from the fact that the utility brought this suit in circuit court that both parties considered the question of deducting depreciation reserve "still open."

The use of the Wisconsin commission's method, said Judge Reis, is not only legally sound but is the most practical method available. Rate cases in which reproduction cost new less observed depreciation

was used sometimes took as long as ten years, during which period "extravagant, ever-recurring endless appraisals" were made, with the consumer paying the bills.

In establishing the legality of the present Wisconsin theory, the court again reverted to the Hope Case. Notwithstanding its later opinion as to what the Hope Case meant, the Supreme Court in that case had affirmed a Federal Power Commission decision which adopted as a rate base "actual legitimate cost" minus part of the depreciation reserve. As a result of this decision, Judge Reis continued, "reproduction cost appraisal went out the window."

A statement by Supreme Court Justice Roberts in the Chesapeake & Potomac Case (8 PUR NS 433) that the use of book cost less depreciation reserve is a rough and ready approximation and an arbitrary method of determining value was variously described by Judge Reis as "a gratuitous (but devastatingly costly) remark," "the monkey wrench in the machinery," and "the burr in the cold cream."

From 1918, when Chief Justice Hughes in his capacity as referee in the Brooklyn Borough Gas Case deducted accrued depreciation from book value until Justice Roberts' remark, state commissions had almost unanimously adopted the book value less accrued depreciation method. Several leading court cases followed Chief Justice Hughes' principle as well.

The logic of deducting depreciation reserve and the gist of the equity in the matter was pointed out by Judge Reis in these words:

## PUBLIC UTILITIES FORTNIGHTLY

The customers having provided funds to finance construction, should not be required to pay a return on the property which they, rather than the utility investors, have financed and also on the property whose service capacity is exhausted...

The effect of not deducting the depreciation reserve is that the consumer pays twice for depreciation. He pays day in and day out for depreciation to build up the reserve and then pays forever a return upon valuation or investment with the reserve added in.

The court conceded that there was some justice to the utility's claim in this case that, because it had paid very meager dividends, its depreciation reserve had been built up out of benefits withheld from stockholders who should not be penalized. Unfortunately, however, those past actions are "water over the dam" and present subscribers ought not to pay disproportionately because past customers were

let off too easily, Judge Reis declared.

Objection to the commission's establishing rates on an exchange basis rather than a system-wide basis was dismissed with the comment that since the over-all return was fair, the company could not object, although a municipality adversely affected might properly protest if discrimination were apparent.

An objection of insufficient findings was summarily disposed of. The commission, the court said, determined a rate base down to the last dollar, fixed a rate of return of a definite per cent, disregarded going value, estimated working capital, made a finding on maintenance, and disallowed a wage increase not yet put into effect. These findings were sufficient. No finding of "fair value" in the sense of reproduction cost less depreciation was required. "Fair value," the court concluded, was ferried over the Styx—not by Charon but by Hope. *Community Teleph. Co. v. Public Service Commission.*



### Condition Imposed on Power License Requiring That Water Be Made Available for Recreation

THE Federal Power Commission conditioned its approval of an application for authority to continue operation of a power project on a river running through national forest land on the utility's permitting at least 50 cubic feet of water per second to run through the river channel from June to September.

The power project had been constructed in 1906 under a 40-year license. When the company, in 1946, applied for authority to continue occupancy of the government lands involved, the Secretary of Agriculture, who has jurisdiction of the forest land, advised the commission that plans had been made for developing the area along the river for such recreational purposes as bathing and picnicking and requested that the condition be imposed.

In its efforts to obtain authority to operate in the same manner as it had prior to 1946, the company raised numerous objections to the condition. Great emphasis was placed on an agreement be-

tween it and a land company interested in the development of land located downstream from the power plant.

This contract was apparently made to settle a dispute between the power company's predecessor and landowners claiming rights in river waters. Its purpose was to assure the landowners that the river would come down to them undiminished by storage, regulation, or undue consumptive use. It required the company to line its diversion tunnel with concrete and to take other measures to minimize loss through percolation. It also required the company to divert at all times through the tunnel the entire flow of the river up to the tunnel's hydraulic capacity. This last condition was apparently imposed with the idea that more water would be available downstream if the river traveled for 10 miles through the concrete-lined tunnel than if it followed its natural channel.

The commission pointed out that the government was not a party to the agree-

## PROGRESS OF REGULATION

ment and consequently could not be bound by it even though lower irrigators might be benefited by the diversion for which it provided. The contract neither affected the government's riparian rights to the beneficial use of river waters in connection with its use of the forest lands nor extended the company's license beyond its original term.

The company seriously questioned the use to which the water running down the natural channel would be put. Is recreation a public purpose which must be considered by the commission in awarding a power project license? Do riparian rights include rights to use water for public recreational purposes? The commission answered both questions in the affirmative. Consequently, since the government rights in the stream included recreational use, a public pur-

pose under the Federal Power Act, the commission had authority to order that water be made available by the company for this use.

Finally, the commission disposed of an objection that imposition of the condition was contrary to the Constitution. It pointed out that that section of the Constitution which makes Congress the proprietor of government lands (Article IV, § 3, Clause 2) affords ample authority for the action ordered. Several cases in which the due process clause was relied on to enforce a limitation on the power of Congress were distinguished as involving state police power, or Federal power over interstate commerce, powers much more limited than Congress' authority over lands of the United States. *Re Southern California Edison Co. (Project No. 1930, Opinion No. 184).*



### Sale of Convertible Debentures by Negotiation without Competitive Bidding Allowed

CENTRAL HUDSON GAS & ELECTRIC CORPORATION was permitted by the New York commission to issue \$6,000,000 principal amount of convertible debentures and a sufficient number of shares of common stock without par value to effect their conversion. Permission was also granted to negotiate the sale of the securities instead of advertising for competitive bids.

A witness for the company testified at some length upon factors which persuaded him that competitive bidding would not be as desirable for this particular issue as a negotiated underwriting. He thought that, in view of the terms of the proposed issue, a fair decision as to which of several competitive bids was the most favorable would be difficult. There was no clear method for establishing a formula by which the most favorable bid could be selected, since the debentures would be bought as a call on stock rather than a maturing debt obligation. Presuming the bonds to be converted prior to maturity, the interest rate to maturity would not be particularly significant, and

because the corporation's circumstances were changing rapidly, an unreasonably low winning bid might be received or a wide range of bids might well be obtained.

The higher the premium would go, the higher would be the potential price to the corporation for the stock when converted, but the higher the market price of the stock would have to go to make conversion attractive to the debenture holders, thereby creating an impediment to conversion.

The desirability of wide distribution of the issue in order to have the common stock, upon conversion, reasonably widely held was also considered. There was said to be the risk inherent in competitive bidding that the entire issue might be bid in by one or more institutions that might turn out to be a controlling interest in the company's affairs, or that might be much less disposed to make voluntary conversion, than if the issue were widely dispersed.

Another disadvantage to competitive bidding was said to be the lack of flexi-

## PUBLIC UTILITIES FORTNIGHTLY

bility as to an offering date. It was said that once the machinery for competitive bidding is in motion, it grinds to an inevitable conclusion regardless of favorability of the market at that moment.

In order to show that the aims and desires of the company were obtainable under competitive bidding procedure, Halsey, Stuart & Co., Inc., appeared as a party of record and produced a witness who said that he knew of no unusual difficulty encountered by management in fixing the coupon rate and conversion rate of a convertible debenture and that it was not unusual, in connection with transactions in which the securities were intended to be offered at competitive bidding, for the potential issuer to consult with his firm on the types of financing that might be used.

He said that the decision to fix the several factors of coupon, call, and conversion prices could be postponed to as late as forty-eight hours before the opening of bids. He knew of no material factor in the way of flexibility available through negotiation which could not be reasonably duplicated through competitive bidding.

The commission said that while it had never adopted any specific rules with respect to competitive bidding in connection with the issuance of securities but had considered each application on its merits, it undoubtedly would under ordinary circumstances require competitive bidding for the issuance and sale of securities aggregating \$6,000,000. But there were certain unusual features which must be weighed before any final conclusion could be reached. It continued:

The petitioner stressed the importance, in view of its plans for a later issue or issues of a large amount of mortgage bonds, of a wide distribution of the debentures in the hands of holders who would be free to convert into equity shares at any favorable time. This claim merits thoughtful consideration, otherwise the corporation's prime objective of ultimately obtaining equity capital would be defeated. . . .

While it would be possible to include in bidding papers restrictions . . . it is

extremely doubtful that such restrictions would have any legal standing. In fact, the witness for Halsey, Stuart & Co., Inc., stated that it would be proper, under competitive bidding restrictions that attempted to limit the sale of \$250,000 principal amount of the debentures to one holder, for twelve dealers of the successful syndicate to sell \$250,000 each or an aggregate \$3,000,000 principal amount of the proposed securities to one institutional buyer. A transaction of this nature, possibly not as extreme as outlined, could defeat the aim of the petitioner's application.

Another problem connected with the issuance of convertible debentures is the question of determining and fixing the many variables such as price, coupon rate, redemption premium, and conversion price or prices. In instances where the common stockholder has preemptive rights, all of these variables are determined sometime in advance of the actual offer so that all that remains under a negotiated deal or under a public bidding offer is to determine what an underwriter will pay for the privilege of placing the unsubscribed portion of the issue. Where all these variables, which are interrelated and interdependent, are not fixed in advance, the question is whether they can be determined better forty-eight hours in advance of opening of competitive bids, or whether better terms can be arranged under a negotiated deal. All things being equal, it would appear that the corporation and the underwriter could better work out the various problems of a convertible issue and coördinate the different factors at one time, just prior to the offer of the securities to the public. Under this method, situations could be avoided which otherwise might prevent the ultimate conversion of the issue into equity shares or which could in some other way prove disadvantageous to the corporation.

*Re Central Hudson Gas & Electric Corp.  
(Case 14473).*

## PROGRESS OF REGULATION

### Dispute between Utility and Water District Compromised

THE California commission, in resolving a dispute between a water utility and a water district over the right to serve a rapidly developing area of the state, pointed out that wholly unrestrained competition between the two would be neither in the public interest nor aid in the orderly development of the territory. The commission also observed that such competition does not neces-

sarily result in better service at lower cost.

The commission permitted the utility to serve all areas contiguous to its existing system except those territories expressly excluded from its certificate by an order in an earlier proceeding. *Pico County Water Dist. v. San Gabriel Valley Water Co.* (Case No. 4989, Decision No. 43302).



### Commission Has Jurisdiction over Private Truck Operations

THE Utah Supreme Court dismissed the petition of several corporations for a writ of prohibition against the state commission's assuming jurisdiction over their use of the highways when the facts indicated that the corporations actually were carriers subject to commission authority.

The corporations, acting pursuant to an agreement to rent a truck to transport their separate merchandise, had employed a supervisor and a truck driver. Each corporation was to pay the employees in

relation to the amount of work done for each, and each corporation was to bear its proportionate share of the truck rental and maintenance expense.

The court ruled that by their agreement the corporations had formed an association for a separate enterprise, the purpose of which was to transport property for hire. Such an association, the court pointed out, was a contract carrier subject to commission jurisdiction. *Low et al. v. Public Service Commission et al.* 210 P2d 558.



### Radio Music and Commercials Approved for Streetcars

AN interesting question was passed upon by the District of Columbia commission after a hearing on the installation of radio receivers in streetcars and busses operating within the District. The traveling public for some months had been hearing music, time signals, and commercials broadcast over a local FM station.

Objectors to the radio installation contended (1) that they were deprived of the right to listen or not to listen in violation of the First Amendment to the Constitution and deprived of their liberty and property without due process of law in violation of the Fifth Amendment, and (2) that the use of radio receivers on public conveyances is inconsistent with the convenience, comfort, and safety of the traveling public because of the effect of the broadcasts on a significant number of riders and operators.

The commission first ruled that the

matter was within its jurisdiction since its authority extended to the equipment or condition of motor vehicles used by common carriers. A decision in such matters, however, the commission added, must rest upon a basis more tangible than impassioned pleas reflecting personal feelings either for or against radios in streetcars and busses. Its authority did not extend to the constitutional questions presented but only to public convenience.

The effect of the broadcasts on the thinking, reading, and chatting of the traveling public, the possibility that it would lead to thought control, the quality of the music, and the effect of the program on public health and safety were matters considered by the commission at the request of various persons appearing at the hearing.

After considering the testimony of transit company employees favoring



## PUBLIC UTILITIES FORTNIGHTLY

radio as a means of creating better will among passengers, a representative of the police department, and others (who pointed out that the presence or absence of radios in streetcars and busses has no relation to accident statistics), and a public opinion expert whose survey indicated that less than 7 per cent of the public actually opposed the installation, the

commission terminated its investigation. The conclusion is inescapable from the testimony of record, the commission said, that the use of radios in streetcars and busses is not inconsistent with public convenience, comfort, and safety. *Re Capital Transit Co. (PUC No. 3490/1, Formal Case No. 390, Order No. 3612).*



### Abandoned Property and Conversion Cost Included In Basis for Natural Gas Rate

THE District of Columbia commission authorized an increase in natural gas rates after a consideration of unrecovered cost of abandoned property, conversion cost because of a changeover to natural gas, allocation of expenses to a subsidiary company, allocation between gas service and merchandising and jobbing, and other rate questions.

The difference between the original cost of land and an appraised value, placed on the company's books while operating under a sliding-scale arrangement, was held not to represent investment. Therefore, in arriving at return on investment the inclusion of an item of this character in the rate base, said the commission, merely tends to understate the percentage of return actually earned.

Certain production facilities had been abandoned and other facilities converted to the manufacture of a high BTU gas for stand-by and peak-shaving purposes. After giving effect to the portion of the depreciation reserve considered applicable to abandoned property, to salvage recovered, and to amortization charges there was a substantial balance which the commission decided was properly includible in the rate base.

A witness for the government thought that since abandonment of this property was a result of a change in the gas art and was one of the hazards of the business provided for in the rate of return allowed the company, it should be excluded entirely. In his determination of income, however, he provided for the recovery of the cost of this property as an operating revenue deduction.

A commission witness thought that the extraordinary property loss was occasioned by inadequate depreciation accruals in the past and that, inasmuch as such accruals had been generally prescribed and limited by the commission, it was only fair and equitable not only to permit the recovery of this investment but to allow a return on it until it had been fully recovered. He said that under the investment theory of rate regulation the used and useful concept loses much of its significance and that an equitable balancing of the interest of investors and consumers requires that items of this character be treated as any other unrecovered investment, whether in use or not now in use, provided that the abandoned property has been used in furnishing service.

It was necessary for the company to spend about \$3,000,000 to adapt customers' appliances to the use of straight natural gas. All competent witnesses agreed that this cost was a proper operating revenue deduction and it was amortized over a 10-year period. The question was raised, however, whether or not the unamortized portion of conversion cost should be included in the rate base. Witnesses for the company and the commission treated this item as an investment on which a return should be allowed.

The commission's witness said that this item represented capital invested to furnish service and that it was no different from an investment in tangible property used in furnishing gas service. The witness for the government thought that the cost of conversion should not be consid-



## PROGRESS OF REGULATION

ered as a capital item or included in investment. He admitted that working capital is as much entitled to a return as an investment in tangible property and he could not satisfactorily answer the question why working capital which is merely cash to be used for future expenses should be allowed a return when money actually spent in the payment of operating expenses and not fully recovered should not be allowed a return.

It was clear that the amount involved was so large that it could not be charged to operating expenses in the year expended without serious impact upon rates. It was also clear that it was necessary for the company to provide funds to make these expenditures. Certainly, said the commission, these funds could not be secured from investors without cost. The amount required represented cash working capital used in customer service and was part of the company's investment upon which the return should be based.

The commission was convinced that the therm sales basis of allocation of certain sales promotion expenses to a subsidiary company should be discarded and replaced by an actual time sheet distribution of costs of this character.

The commission also disapproved the allocation of expenses applicable to the

merchandising department on the incremental theory. This theory is based on the assumption that only those costs which would not be incurred if the company were not in the merchandising business are charged to that activity. The commission said that the company should adopt an allocation method which would equitably apportion costs between the gas business and the merchandising business in all cases where such costs are related.

Further hearing was denied although attorneys for gas consumers and independent appliance dealers, among other things, detailed the experience of appliance dealers, the method of selling and installing gas appliances, and the type of tools and transportation equipment necessary in the business.

The commission said that if the proceeding before it had involved an investigation of the practices of appliance dealers this testimony would have been helpful, but the practices of gas appliance dealers and their efforts to force the gas company to abandon its sale of gas appliances not only bore no relation to the reasonableness of rates for gas service, but were matters not within the jurisdiction of the commission. *Re Washington Gas Light Co. (PUC No. 3495, Formal Case No. 389, Order Nos. 3600, 3604).*



### Condition Limiting Transfer of Air Rights Rejected

THE Civil Aeronautics Board rejected a condition which a transcontinental airline desired imposed on a part of its certificate which was to be transferred to a local feeder line. The condition would prohibit the local line from transferring its newly acquired rights to any carrier other than another feeder line.

The board observed that the airline apparently wished to protect itself from

competition in the area from other large lines and as a means toward this end was attempting to prevent the rights in question from ever being acquired by a competitor for cross-country air traffic. The imposition of such a condition, the board concluded, would circumscribe its authority over further transfers of the operating rights and, consequently, would be contrary to the public interest. *Re Bonanza Air Lines, Inc. (Docket No. 4053).*



### Normal Water Year Governs Electric Rates

THE Vermont commission, in establishing new rates for an electric company, decided that since the company

obtained a major part of its energy by hydroelectric generation, the commission should, in order to avoid a constant and

## PUBLIC UTILITIES FORTNIGHTLY

continuing revision of rates, base its decision on a normal water year.

The company was allowed a 6 per cent return on total investment. This represented net depreciated investment in elec-

tric plant used or useful in serving customers, plus necessary working capital. *City of Newport v. Newport Electric Division of Citizens Utilities Co.* (No. 2400).



### Other Important Rulings

THE Georgia commission rejected a telephone company's request for permission to amortize extraordinary retirements, consisting of a magneto switchboard and a large number of magneto telephones, over a 10-year period where the proof established neither that their undepreciated value had not been accrued in the depreciation reserve in prior years nor that a charge for that value against the reserve in one year would result in undue depletion of the company's re-

serve. *Re Turton* (File No. 19508, Docket No. 9504-A).

The Michigan commission, in awarding a local telephone company an increase in exchange rates, indicated that the company's continued enjoyment of the new rates was conditioned upon its maintaining an adequate bookkeeping system and adopting sufficient means to improve its plant and equipment. *Re Southern Teleph. Co.* (T-627-49.1).

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*Public Utilities Reports (New Series)* are published in five bound volumes annually, with an Annual Digest. These Reports contain the cases preprinted in the issues of PUBLIC UTILITIES FORTNIGHTLY, as well as additional cases and digests of cases. The volumes are \$7.50 each; the Annual Digest \$6.00. *Public Utilities Reports* also will subsequently contain in full or abstract form cases referred to in the foregoing pages of "Progress of Regulation."

UNITED STATES SUPREME COURT

United States et al.

v.

Capital Transit Company et al.

Nos. 40, 41

— US —, 94 L ed —, 70 S Ct 115

November 14, 1949

**A**PPEAL from District Court orders enjoining Interstate Commerce Commission transit rate orders; reversed and remanded with directions to dismiss.

*Interstate commerce, § 7 — What constitutes — Local transportation — Interstate movement.*

1. Daily transportation of thousands of passengers within the District of Columbia, by a transit company operating only within the District, is part of an interstate movement if they transfer to and from busses of other companies in order to travel between the District and government establishments in the state of Virginia, p. 34.

*Interstate commerce, § 79 — Powers of Interstate Commerce Commission — Intrastate rates — Interstate travel.*

2. The Interstate Commerce Commission has power to establish a through rate for passengers traveling between the District of Columbia and the state of Virginia on busses and streetcars of a transit company engaged wholly in intra-District traffic, if they transfer to or from busses of other companies operating between the District and the state of Virginia, where Commission regulation is based primarily on the fact that the District service is part of a stream of interstate transportation, p. 34.

*Interstate commerce, § 79 — Regulation by Interstate Commerce Commission — Intrastate transit rates — Change in interstate travel.*

3. An order of the Interstate Commerce Commission, entered during a war period, establishing a through transit rate for residents of the District of Columbia employed at government offices in the state of Virginia and using busses and streetcars of a transit company operating wholly within the District and then transferring to out-of-District busses of other companies, should not be set aside because of the fact that the war has ended and there are fewer workers in the Virginia installations, where the Commission order is based primarily on the fact that the intra-District traffic is an integral part of an interstate movement, p. 34.

*Appeal and review, § 24 — Interstate Commerce Commission order — Question already determined.*

4. An Interstate Commerce Commission order establishing a through rate for the transportation of passengers between the District of Columbia and nearby government installations in the state of Virginia should not be set aside where the Commission's position has been sustained by the Supreme

## UNITED STATES SUPREME COURT

Court on an earlier appeal in the same proceeding and the same reasons exist for Commission action at the time of the present hearing as before, p. 34.

*Appeal and review, § 18 — Scope of review — Question not raised before Commission.*

5. An allegation that a Commission order is confiscatory, made before a reviewing court and not presented to the Commission for its determination, is not ripe for judicial review, p. 36.

*Interstate commerce, § 79 — Jurisdiction of Interstate Commerce Commission — Local transportation.*

Statement, in dissenting opinion, that the Motor Carrier Act does not permit the Interstate Commerce Commission to assume jurisdiction over a transit company whose operations do not cross state lines, regardless of the fact that a steady stream of its passengers are bound for out-of-state points while using its service, p. 37.

*Interstate commerce, § 7 — Status of local passenger transportation — Passenger's intent.*

Statement, in dissenting opinion, that a transit company rendering intrastate service to passengers who have an intention to continue their journey across state lines by way of another and wholly unconnected company does not come, by virtue of the passengers carrying out their intention, interstate commerce under the Motor Carrier Act, p. 37.

(VINSON, CJ., and REED and JACKSON, JJ., dissent.)

APPEARANCES: Philip Elman, Washington, D. C., for appellants, the United States and Interstate Commerce Commission; Manuel J. Davis, Washington, D. C., for appellant, Washington, Va. & Md. Coach Co. Inc; S. Harrison Kahn, Washington, D. C., for appellant, Alexandria, Barcroft & Washington Transit Co.; Samuel O. Clark, Jr., Washington, D. C., for appellee, Capital Transit Co.; Lloyd B. Harrison, Washington, D. C., for appellee, Public Utilities Commission of the District of Columbia; Henry E. Ketner, Richmond, Va., for State Corporation of the State of Va., as amicus curiae by special leave of court.

PER CURIAM:

[1-4] In *United States v. Capital Transit Co.* (1945) 325 US 357, 89 81 PUR NS

L ed 1663, 58 PUR NS 257, 65 S Ct 1176, we upheld the jurisdiction of the Interstate Commerce Commission to regulate certain of Capital Transit's bus and streetcar rates. The rates involved were in two different categories. Transit operated, as it still does, a bus and streetcar system within the District connecting the residential area with the central business area. It was also one of four bus companies carrying passengers from that central business area to the Pentagon building and other defense establishments located just across the Potomac in Virginia. Each day thousands of government employees living in the District boarded Transit's streetcars near their residences, rode to the District's business area, and there transferred to one of the Virginia busses for carriage to the nearby Virginia establishments. In

## UNITED STATES v. CAPITAL TRANSIT CO.

the above case we sustained a Commission order fixing a through fare for the entire trip between the District residential area and the Virginia governmental installations. Transit had strongly urged that its bus and streetcar transportation between residential and business areas, being wholly within the District, could not be treated as part of an interstate movement. For reasons stated in our former opinion we rejected Transit's contention, holding that the daily stream of government workers from the District to Virginia and back again was an interstate movement and therefore subject to regulation by the Commission. This holding applied to Transit carriage even where Transit passengers traveled between the District and Virginia on other bus lines. Transit also contended that jurisdiction of the Commission was precluded by a proviso in § 216(e) of the Interstate Commerce Act, 49 USCA § 316(e), exempting "intrastate transportation" of motor carriers from regulation by the Commission. This contention was repeated on motion for rehearing. We rejected it. Our holding that Transit's part of the District-Virginia movements was "interstate transportation" necessarily made the § 216(e) exemption inapplicable.

After our holding the Commission entered a new order putting into effect the rate order we had sustained. In the present cases, here on appeal from a 3-judge district court under 28 USC §§ 1253 and 2101(b), 28 USCA §§ 1253, 2101(b), the new order was

enjoined<sup>1</sup> on the ground that Transit's transportation, which we had held to be interstate, had now become "intrastate." On the same ground, that court also held that Transit was exempt from Commission jurisdiction under the proviso in § 216(e). The district court also cited to support its ruling our recent decision in *United States v. Yellow Cab Co.* (1947) 332 US 218, 91 L ed 2010, 67 S Ct 1560.

The district court apparently took the position that changed conditions since our decision in the prior *Transit Case* had deprived the Commission of its jurisdiction. When we sustained the Commission's order in that case, Transit was itself operating one of the four bus lines carrying government workers from the District central business area to Virginia. It issued transfers to passengers on its busses and streetcars between the District business and residential areas. These transfers were good for rides on Transit's own District-Virginia busses, but Transit would not give transfers good on the three competitive lines. We adverted to and relied on this situation as one of the reasons supporting the Commission's requirement that Transit make similar arrangements for through fares with the other lines. April 1, 1947, Transit abandoned its District-Virginia bus line. Because of this the district court held that since that date all of Transit's carriage of Virginia-bound passengers has been "intrastate transportation."

The district court's annulment of the Commission's order on the above

<sup>1</sup> The district court simultaneously enjoined enforcement of two subsequent related Commission orders. One order declined to permit cancellation of the prescribed through rates and schedules. (1947) 47 MCC 205. The other

increased the former prescribed maximum rates and provided for divisions of through fares among the companies carrying the District-Virginia passengers. (1948) 270 Inters Com Rep 651.



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ground cannot stand. Our previous holding was that all of Transit's intra-District carriage of passengers bound to and from the Virginia establishments was part of an "interstate" movement and therefore subject to Commission regulation throughout, upon proper Commission findings. *United States v. Yellow Cab Co. supra*, does not conflict with our prior holding that Transit's transportation was part of a continuous stream of interstate transportation. We adhere to that holding. Transit's intra-District streetcar and bus transportation of passengers going to and from the Virginia establishments is an integral part of an interstate movement.

In support of the district court's judgment it is urged that there was no substantial evidence to support the Commission's findings that its exercise of jurisdiction was necessary to a national transportation system "adequate to meet the needs of . . . the national defense." The argument seems to be that the Commission should have altered this finding made in the prior proceedings because the nation is no longer at war. Another factor pointed out is that there are now fewer Army and Navy workers who work in the Virginia installations. Neither of these arguments is sufficient to justify setting aside findings made by the Commission on this point. The evidence before the Commission in the two proceedings indicates that the same reasons exist for Commission action now as before. And despite attempted interference with the Commission's power by the Public Utilities Commission of the District, it is still true that neither the District nor Virginia has adequate power to regulate

the through rates for this daily stream of interstate travel.

[5] It is also argued here that the orders should be set aside because they are confiscatory. But the record fails to show that this issue was properly presented to the Commission for its determination. Therefore the question of confiscation is not ripe for judicial review.

We have examined other contentions urged in support of the district court's judgments and find that all are without merit.

The judgments of the district court in these cases are reversed and the causes are remanded to it with directions to dismiss these actions.

Reversed and remanded.

It is so ordered.

Mr. Justice Douglas took no part in the consideration or decision of this case.

VINSON, CJ., and REED and JACKSON, JJ., dissenting: The opinion in our view bases the judgment on a holding "that all of Transit's intra-District carriage of passengers bound to and from the Virginia establishments was part of an 'interstate' movement and therefore subject to Commission regulation throughout, upon proper Commission findings." Since the court does not rest the applicability of the Motor Carrier Act, 49 Stat 543, 49 USCA § 301 et seq., to the Capital Transit Company on the existence of Transit's lines to Maryland, we, too, lay that problem aside. We understand the court to assert that the statute empowers the Commission to enter the contested order whether or not Transit operates admitted interstate routes.



## UNITED STATES v. CAPITAL TRANSIT CO.

The present case differs from the former case involving the operations of the Transit Company (1945) 325 US 357, 89 L ed 1663, 58 PUR NS 257, 65 S Ct 1176. In the earlier case Transit served Virginia areas in competition with other interstate operators of busses. As the operator of interstate routes selling through tickets on its own lines, Transit was required also to sell and accept through tickets that were good for passage on other interstate lines. Such obligation was imposed by § 216(e), the section prohibiting anything "unduly preferential or unduly prejudicial," and § 216(c), the section regulating charges for voluntary through rates. 325 US at p. 362.

Now Transit does not operate the interstate routes to the Virginia points. It is not an interstate carrier over the route for which it now is required to sell through tickets. Therefore, the court opinion finds it necessary to rely upon the stream of passengers between the District and Virginia to put Transit under the Motor Carrier Act as engaged in interstate commerce so far as it transports, in the District, passengers with an ultimate out-of-state destination. We do not believe the act permits such a construction.

Clearly the act is limited to operations in interstate commerce.<sup>1</sup> Con-

gress has not used the full extent of its commerce power to reach incidents affecting interstate transportation. It has emphasized a contrary intention by providing for the exclusion from the coverage of the act, in certain situations, of interstate passenger traffic in a municipality, contiguous municipalities or adjacent zones. Section 203 (b) (8), 49 USCA § 303(b) (8). Likewise the act specifically bars the Commission from regulating intrastate transportation on the ground that it affects interstate transportation.<sup>2</sup> Since the Motor Carrier Act does not regulate carrier activities that merely affect interstate commerce, we think the stream of commerce theory inapplicable.<sup>3</sup> We cannot agree that intrastate carriage of passengers who have an intention to continue their journey across state lines by way of another and wholly unconnected company makes the first carrier a company engaged in interstate commerce under the Motor Carrier Act as to that transportation.

The court's decision may have unfortunate results. Its unlimited language sweeps into the hands of the Commission the regulation of all local transportation that carries a large proportion of passengers destined for or arriving from out-of-state points. For example, the court's ruling would

<sup>1</sup> "Section 202(a), 49 USCA § 302(a). The provisions of this chapter apply to the transportation of passengers or property by motor carriers engaged in interstate or foreign commerce and to the procurement of and the provision of facilities for such transportation, and the regulation of such transportation, and of the procurement thereof, and the provision of facilities therefor, is hereby vested in the Interstate Commerce Commission."

<sup>2</sup> "That nothing in this chapter shall empower the Commission to prescribe, or in any manner regulate, the rate, fare, or charge for in-

trastate transportation, or for any service connected therewith, for the purpose of removing discrimination against interstate commerce or for any other purpose whatever." Section 216(e).

<sup>3</sup> See *McLeod v. Threlkeld* (1943) 319 US 491, 87 L ed 1538, 63 S Ct 1248; *National Labor Relations Board v. Jones & L. Steel Co.* (1937) 301 US 1, 81 L ed 893, 57 S Ct 615, 108 ALR 1352; *Stafford v. Wallace* (1922) 258 US 495, 66 L ed 735, 42 S Ct 397, 23 ALR 229.

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seem to include the New York city subway and streetcar service on its way commuter traffic moving by local bus, to and from interstate busses.

NEW JERSEY BOARD OF PUBLIC UTILITY COMMISSIONERS

Re Monmouth Consolidated Water  
Company

Docket No. 4349  
September 8, 1949

**A**PPPLICATION by water company for authority to increase rates;  
modified rate increase authorized.

*Valuation, § 299.1 — Allowance for working capital — Income tax accruals.*

1. Funds which a utility has on hand far in advance of the time when its Federal income taxes become due and payable are a proper offset against the cash working capital requirements which its investors should provide, p. 40.

*Valuation, § 224 — Rate base — Construction work in progress.*

2. Items included in a utility's Construction Work in Progress Account upon which it has followed the practice of capitalizing interest during construction are not includable in the rate base inasmuch as investors, by this capitalization of interest, are indirectly compensated for the provision of funds during the construction period, p. 42.

*Valuation, § 251 — Rate base — Advances by customers.*

3. A utility must not only deduct contributions in aid of construction from its rate base, but must also deduct advances by customers in aid of construction, since its failure to do so would result in its obtaining a return on moneys provided by customers, p. 42.

*Valuation, § 413 — Evidence — Witness' lack of knowledge.*

4. Evidence of a rate base reflected in exhibits prepared by a utility witness who frankly admits that he had nothing to do with the development of the composite price indices used in the preparation of valuations to which he testified can be accorded little, if any, probative value, p. 42.

*Valuation, § 413 — Evidence — Difference between book and original cost.*

5. A net investment rate base cannot be accurately developed from exhibits based upon the book cost and original cost of utility property where there is a lack of adequate evidence as to the origin and character of the differences between book cost and original cost, p. 42.

*Return, § 115 — Water utility.*

6. A new rate schedule which would allow a water utility a return of 5.6 per cent on its rate base was considered fair and reasonable, p. 43.

## RE MONMOUTH CONSOLIDATED WATER CO.

**APPEARANCES:** Joseph F. Autenrieth, for Monmouth Consolidated Water Company; Roberts, Pillsbury, Carton & Sorenson, by Lawrence A. Carton, Jr., for Middletown township and borough of Eatontown; Elston F. Combs, by William R. Blair, Jr., for township of Shrewsbury; Henry H. Patterson, for township of Ocean.

By the COMMISSION: On February 15, 1949, the Monmouth Consolidated Water Company (hereinafter sometimes referred to as Company) filed an amendment to its present tariff, P. U. C. No. 3, in the form of a 20 per cent surcharge to be applied on all bills rendered on and after March 21, 1949. The Board suspended the proposed increase in rates pending hearing and determination.

The record indicates that the Company gave notice of the proposed increases by advertisements in newspapers circulating in its service area. Notice of the time and place assigned for hearing was forwarded by the Board to the clerk of each municipality served by the Company.

Public hearings in this matter were held on April 6 and May 19, 1949. Appearances entered in this cause are shown on the heading hereof.

Monmouth Consolidated Water Company serves approximately 24,000 customers in an area along the Atlantic coast from Port Monmouth south to the borough of Bradley Beach, a distance of approximately 23 miles. The municipalities in which water service is furnished by the Company are Neptune City, the westerly part of the city of Asbury Park, city of Long Branch, the boroughs of Deal, Bradley Beach, West Long Branch,

Oceanport, Monmouth Beach, Seabright, Rumson, Fair Haven, Interlaken, Little Silver, Shrewsbury, Eatontown, and the townships of Middletown, Ocean, Shrewsbury, and Neptune which includes Ocean Grove. Water is sold wholesale to the Ideal Beach Water Company, Shark River Hills Water Company, and the Portaupeck Water Company.

The existing rates have been in effect since October 1, 1941, following a formal rate proceeding and a decision by this Board dated August 20, 1941, 17 NJ PUC 212, 40 PUR NS 292. The Company's present proposal to increase existing rates by 20 per cent would have the effect of increasing annual revenues by approximately \$183,000 on the basis of 1948 sales.

In the statement accompanying its filing, the Company asserts that it has become necessary to increase rates for the following reasons:

"(a) There has been a substantial increase in the Company's labor costs. Since 1941 the average hourly wage rates paid have increased about 80 per cent. The operating and maintenance payrolls increased from \$110,878 in 1941 to \$191,888 in 1948, an increase of \$81,010, or 73 per cent.

(b) There has been a marked increase in the cost of the Company's operating materials and supplies. During the period since 1941, the cost of chemicals used in the Company's water treatment plants has risen 55 per cent; the cost of coal is up 70 per cent; and the costs of meter and hydrant repair parts are higher by 50 per cent and 80 per cent, respectively.

(c) There has been a substantial

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increase in local property taxes and other items of expense.

(d) During the period from January 1, 1941, to December 31, 1948, the Company expended upon its plant and property \$773,426 over and above the cost of property retired during the period. During the same period there was an increase in the depreciation reserve of \$275,421 and an increase in contributions in aid of construction of \$45,556. Therefore, the net increase at December 31, 1948, in the rate base established by the Board is \$452,449. In spite of the extensive betterments made during the period, the Company today is not only not receiving any return on such net betterments but its gross income is substantially less than the amount allowed by the Board in its order of August 20, 1941 (*supra*)."

William E. Stoney, president of the Company, offered testimony as to the actual operating results for 1948 and the estimated pro forma results based on current cost levels. William C. Gilman, a consulting engineer, testified on behalf of the Company with respect to the cost of capital and rate of return. Other witnesses for the Company were Harry M. Iverson, assistant comptroller of Monmouth Consolidated Water Company, and Ellwood H. Aldrich, vice president and chief engineer of the Water Works Service Company, Inc., both of whom testified with respect to rate base. No direct testimony was introduced on behalf of any of the municipalities that participated in this proceeding.

### Rate Base

[1] The Company made no specific claim as to rate base in this proceed-

ing. It presented, however, the following evidence as to rate base:

1. Exhibit B-13 reflects a previous finding by this Board as to rate base as of December 31, 1940, namely \$5,600,000, plus net additions from January 1, 1941, to December 31, 1948, less the increase in the reserve for depreciation and in contributions by customers for extensions during this period. After inclusion of a claimed allowance of \$140,000 for cash working capital and materials and supplies, instead of the \$100,000 allowance for this item included in the Board's previous finding, the calculation in this exhibit results in a rate base of \$6,094,570.

2. Exhibit P-14 represents fixed capital as recorded on the books at December 31, 1948, less the reserve for depreciation and contributions for extensions, plus the aforementioned claimed allowance for cash working capital and materials and supplies. This calculation produces a rate base of \$6,873,724.

3. Exhibit P-15 presents a rate base calculation developed by using, as a starting point, the items composing the rate base as reflected in Exhibit P-13 and then applying multipliers or factors to restate the Board's previous finding, net additions, and the increases in the reserve for depreciation and in the item contributions for extensions at price levels purporting to correspond to those prevailing at December 31, 1948. By this calculation a rate base of \$10,996,391 is arrived at.

4. Exhibit P-18 presents a rate base calculation which follows that reflected in Exhibit P-15 excepting that the items net additions and contribu-

## RE MONMOUTH CONSOLIDATED WATER CO.

tions for extensions are stated as per book without application of multipliers, and the Board's Previous Findings and Increase in the Reserve for Depreciation are multiplied by factors which purport to adjust these items to price levels corresponding to average prices prevailing during the period 1941-1948, inclusive. A rate base of \$7,524,610 results from this calculation.

5. Exhibit P-19 presents a statement of rate base computed in the same manner as that reflected in Exhibit P-15 with the exception that the net additions made during the period 1941 to 1948, inclusive, are stated at book cost. This calculation produces a rate base of \$10,765,365.

6. Exhibit S-1 reflects a rate base calculation based upon the original cost of the Company's property. This calculation was prepared by the Company at the request of the Board's staff. As used herein, the term original cost means the cost of the property to the person first devoting it to the service of the public. In the development of Exhibit S-1 the Company used as a starting point an estimate of the original cost of its property as at December 31, 1940, introduced in evidence in the 1941 rate proceeding. To this estimate it added the net additions from January 1, 1941, to December 31, 1948, adjusted to conform the pricing of retirements during the latter period to an original cost basis. It then deducted the reserve for depreciation as per books as at December 31, 1948, adjusted to conform retirement pricing to an original cost basis as well as for reversal of a transfer to Depreciation Reserve from Capital Surplus. To complete

the rate base calculation the Company deducted the book amount of contributions for extensions as at December 31, 1948, and included its claimed allowance for materials and supplies and cash working capital hereinbefore referred to. The aforementioned calculation results in a rate base of \$5,548,991.

### *Cash Working Capital and Materials and Supplies*

In each of the aforementioned evidences of rate base the Company included \$140,000 for "cash working capital and materials and supplies," Exhibit P-13, which reflects an analysis of the latter amount, shows that it is composed of a claimed cash working capital requirement of \$78,670, and the balance—\$63,871—in materials and supplies account at December 31, 1948 (the actual total of these two items, namely, \$142,541, was rounded out by the Company to \$140,000). On the record here the claimed allowance for materials and supplies appears reasonable. As to the claimed allowance for cash working capital, it appears that the Company's calculation of this item was made without regard to any offset against the amount of cash working capital investors may be required to provide as a result of provision by customers of revenues before Federal income taxes become due and payable. It is only the amount of cash working capital that investors are required to provide that is includable in rate base. Under the circumstances here, revenues corresponding to current Federal income tax accruals are received far in advance of the time when such taxes become due and payable. As a result, the Com-



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pany, as a going concern, always has on hand funds equivalent to approximately one year's liability for Federal income taxes. Such funds which represent the provision of cash working capital by customers are considered to be a proper offset against cash working capital requirements to be provided by investors. Giving due consideration to all the evidence as to the level of Federal income tax accruals, the Board is of the opinion that the inclusion in rate base of an allowance of \$100,000 for materials and supplies and cash working capital is adequate under the circumstances of this case.

### *Construction Work in Progress*

[2] Through inclusion of Construction Work in Progress in its statements of net additions and in fixed capital as per books, the Company has, in effect, included the total amount of Construction Work in Progress as at December 31, 1948, in each of the aforementioned evidences of rate base. It appears from the record that the Company follows the practice of capitalizing interest during construction on some items included in the Construction Work in Progress Account. In accordance with regular procedure, the property items which carry interest during construction are not includable in rate base inasmuch as investors are, by the capitalization of interest, indirectly compensated for the provision of funds during the construction period. Exhibit P-20 indicates that the total of all property items included in the Construction Work in Progress Account as at December 31, 1948, comes to \$23,770 and that of the latter sum, \$6,485 rep-

resents items on which interest during construction is charged. Consequently, the aforementioned sum of \$6,485 is not includable in the rate base under the circumstances of this case.

### *Customers' Advances in Aid of Construction*

[3] The record indicates that although the Company deducted Contributions in Aid of Construction in calculating each of its evidences of rate base, it failed to deduct Customers' Advances in Aid of Construction. The latter item, which amounted to \$37,810 as at December 31, 1948, represents advances made by customers to the Company to defray in whole or in part the cost of installing certain property items. Since the total cost of the property items is included in rate base, failure to deduct associated advances by customers would result in a return to the Company on moneys provided by customers for the construction of plant. Since these advances are subject to refund only as the income derived by the Company from facilities covered by such advances and since the Company pays no interest on these advances, the full amount of such advances should be deducted in the determination of the rate base.

### *Findings As to Rate Base*

[4, 5] The various estimates of rate base hereinbefore described are summarized below:

Exhibit P-13 .....	\$ 6,094,570
Exhibit P-14 .....	\$ 6,873,724
Exhibit P-15 .....	\$10,996,391
Exhibit P-18 .....	\$ 7,524,610
Exhibit P-19 .....	\$10,765,365
Exhibit S-1 .....	\$ 5,548,991

As to the evidences of rate base set forth in Exhibits P-15, P-18, and P-



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19, it is noted that these rate bases reflect, in effect, an attempt to ascertain cost of reproduction of the property at either prices prevailing as at December 31, 1948, or at average prices prevailing during the period from 1941 to 1948, inclusive. Essentially, these rate bases were developed by applying composite price indices to a previous finding by this Board as to rate base. In the case of the rate base reflected in Exhibit P-15, composite price indices were also applied to net additions installed since the last rate proceeding in 1941. It is noted from the evidence that the witness who prepared the so-called current or average cost valuations, which, incidentally, were placed in evidence on April 6, and May 19, 1949, visited the plant of the Monmouth Consolidated Water Company for the first time in approximately one year on May 17, 1949. The record further shows that the witness displayed a lack of definite first-hand knowledge as to the maintenance of the Company's property. It further appears that the composite indices used in the preparation of his valuations are merely a compilation of various source indices prepared by others, and that the witness had nothing whatsoever to do with the preparation of these source indices. Consequently, we are faced here with a situation where the witness frankly admits he had nothing to do with the development of the most significant factor affecting his valuations. Under the aforementioned circumstances, the evidences of rate base reflected in Exhibits P-15, P-18, and P-19 can be accorded little, if any, probative force.

The evidences as to rate base reflected in Exhibits P-14 and S-1 are

based upon book cost and original cost of the property, respectively. Such evidence is normally expected to be useful in the development of a net investment rate base. In this situation, however, a net investment rate base cannot be accurately developed from the aforementioned exhibits in view of the lack of adequate evidence as to the origin and character of the differences between book cost and original cost.

On the record in this case, the best evidence as to rate base appears to be that reflected in Exhibit P-13. The matter in which this estimate of rate base was developed has hereinbefore been set forth. In the light of this evidence and applicable adjustments described under headings Cash Working Capital and Materials and Supplies, Construction Work in Progress, and Customers' Advances in Aid of Construction, the Board adopts \$6,010,275 as the rate base as at December 31, 1948, and \$5,885,000 as the average rate base for the year 1948.

### *Fair Rate of Return*

[6] William C. Gilman, the Company's witness on cost of capital, testified that, in his opinion, 6.5 per cent is a fair rate of return for this Company. He arrived at this conclusion by applying to an assumed capital structure (60 per cent debt capital and 40 per cent equity capital) which conforms closely to the Company's actual capital structure (63 per cent debt capital and 37 per cent equity capital) his views as to debt cost rates and equity capital requirements. For the debt capital cost rate this witness adopted 3.5 per cent. This corresponds to the coupon rate on the Company's outstanding bonds. These

## NEW JERSEY BD. OF PUBLIC UTILITY COMMISSIONERS

bonds are all privately held and no regular ratings or market quotation are accordingly available for said bonds. Mr. Gilman, who presented his direct testimony on April 6, 1949, stated that Baa bonds which he considered to be comparable to the Monmouth Consolidated Water Company bonds as to investment quality, were then selling on a 3.4 per cent yield basis. The market for such bonds has improved since Mr. Gilman testified and the same data source (Moody's Investors' Service) used by the witness indicates that the average yield for such bonds has gradually dropped to approximately 3.25 per cent in July of this year.

For the equity capital requirement the witness adopted a rate of 11 per cent. He indicated that he formed his conclusion in this respect largely on the basis of a study of earnings: price ratios for common stocks of eight water companies which he characterized as "water operating companies which in my judgment are somewhat comparable to the Monmouth Consolidated Water Company." The results of the aforementioned studies are reflected in Exhibits P-9 and P-11. The former shows the earnings: price ratios for the common stock of each of the eight water companies selected by the witness for each year from 1944 through 1948. Also shown for each year is the median and average of the earnings: price ratios for the group. He computed the earnings: price ratios by relating reported earnings per share for the year to the average annual high-low market prices of the stock for the corresponding year. For the year 1948 the earnings: price ratios for the

selected companies ranged from 6.8 per cent to 13.4 per cent. For the same year the median and average of the earnings: price ratios shown on the exhibit are 8.7 per cent and 9.1 per cent, respectively. In Exhibit P-11 Mr. Gilman brings the data reflected in Exhibit P-9 forward to a more recent date by computing the earnings: price ratios from earnings per share for the year 1948 and market prices as at March 26, 1949. So computed, the earnings: price ratios range from 7.2 per cent to 15.1 per cent. The median and average of the earnings: price ratios shown on this exhibit are 8.7 per cent and 9.5 per cent, respectively.

Of the eight water companies studied by the witness and reflected in his Exhibits P-9 and P-11, one company, designated here for reference as Company P, showed an earnings: price ratio substantially higher than any of the others. The earnings: price ratio for this company's stock is stated in Exhibit P-11 at 15.1 per cent. For the common stocks of six of the other companies, the earnings: price ratios range from 7.2 per cent to 8.8 per cent, and for the other company's stocks shown on this exhibit, the earnings: price ratio is stated at 10.5 per cent. Through cross-examination, it was developed that two significant factors which have a tendency to depress the market price of a stock and hence increase the earnings: price ratio, were present in the case of Company P but did not exist in the case of any other company under consideration. No claim was made that these factors were applicable to the Company involved in this proceeding. Briefly, these factors were: pendency

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of litigation based on the claim that rates for service are too high and a very low dividend pay-out over a considerable period of years. Under these circumstances it appears unreasonable to include Company P in the list of companies used to establish equity capital requirements for the Monmouth Consolidated Water Company. If Company P is excluded from the list of eight companies reflected in Exhibit P-11, the average as well as the median of the earnings:price ratios for the remaining seven companies becomes 8.7 per cent.

There is, of course, no opportunity to obtain a direct market appraisal of the stock of Monmouth Consolidated Water Company since all of the said common stock is owned by the American Water Works Company and the record gives no indication that American Water Works Company has ever offered any part of applicant's stock for sale.

The common stocks of two New Jersey water companies are among those listed in Exhibit P-11 and the earnings:price ratios for these stocks are stated at 8.2 per cent and 8.7 per cent. In his direct testimony the witness twice referred to the seasonal character of the area served by Monmouth Consolidated Water Company as a reason for assignment by him of a lower investment rating to this Company's stock than to those of the other two New Jersey companies listed in his exhibit. Yet, in attempting to explore, on cross-examination, the extent to which the seasonal nature of the Monmouth Consolidated Water Company's service area entered into the witness's judgment as to the level of fair rate of return, he admitted

that his conclusion as to fair rate of return was not at all affected by the seasonal factor. Then again, with respect to one of the New Jersey companies (earnings:price ratio—8.2 per cent), witness Gilman agreed on cross-examination that this company derived a very substantial portion of its revenues from a relatively small number of industrial customers and that such a situation was considered to be less desirable by investors than one where revenues were derived largely from residential sales as in the case of Monmouth Consolidated Water Company.

In the opinion of the Board, the evidence produced in this proceeding does not reasonably support the witness Gilman's conclusions as to rate of return requirement for the Monmouth Consolidated Water Company. In the light of all the evidence as to cost of capital and rate of return, the Board finds that 5.6 per cent is a fair rate of return under the circumstances in this case.

### *Rate of Return under Present and Proposed Rates*

The record discloses that in 1948 the Company's operating income under present rates (amount available for return after all operating expenses, provision for depreciation and taxes) amounted to \$281,061. For the year 1948, adjusted to reflect the level of operating costs prevailing at the time of the hearings in this matter, the operating income under present rates is estimated at \$247,748.

Included as an item of expense for the adjusted year 1948 is an amount of \$5,000 which is one-fifth of \$25,000, representing the Company's esti-

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mate of the cost of conducting this rate proceeding. Since the conclusion of the case the Company has submitted, pursuant to a record request, a more up-to-date estimate of rate case expenses which indicates that said expenses are not as great as originally anticipated and are now estimated at approximately \$11,300. The amortization of this amount over a 5-year period appears reasonable and the Company's income statement will be adjusted accordingly. So adjusted, operating income for 1948 based on current cost levels becomes \$249,706. This amount is equivalent to a rate of return on the average rate base for the year 1948 hereinbefore set forth of 4.24 per cent. On the basis of the proposed rates, the comparable operating income figure is \$385,278. This operating income corresponds to a rate of return of 6.55 per cent on the aforementioned rate base.

It appears that the rate of return under present rates is lower than that found herein to be fair and reasonable, and that the rate of return under the proposed rates is in excess of that found to be fair and reasonable. Therefore, the Company is entitled to an increase in rates, but not as large an increase as proposed by it. The following schedule indicates the amount of additional revenue required to yield a rate of return of 5.6 per cent on the rate base adopted herein.

(1) Amount of return equivalent to 5.6 per cent of adopted rate base	\$329,560
(2) Operating income under present rates (adjusted year 1948) .....	249,706
(3) Indicated return deficiency ....	\$79,854
(4) Amount of additional revenue required to recover return deficiency adjusted to give effect to related additional franchise and Federal income taxes .....	\$117,600

### Conclusion

On the basis of the foregoing considerations, the Board finds and determines:

1. That the existing schedule of rates has become unjust and unreasonable in that it does not provide the Company an opportunity to earn a fair return.

2. That the rates proposed by the Company are unjust and unreasonable in that they would yield an excessive return and that said proposed rates are, therefore, *hereby disapproved*.

3. That a schedule of rates which will increase annual operating revenues on the basis of 1948 business by \$117,600 is just and reasonable.

4. That the Company shall submit for the consideration of the Board within ten days of the date of this decision, a revised schedule of rates so designed as to produce an increase in annual operating revenues of not more than \$117,600 on the basis of 1948 business and to become effective with bills rendered in the ordinary course of business on and after September 21, 1949.

WISCONSIN PUBLIC SERVICE COMMISSION

## Re Black Earth Telephone Company

2-U-3118

October 31, 1949

**A**PPPLICATION of telephone company for authority to increase rates, revise rules, and discontinue free interexchange service; granted.

*Rates, § 557 — Telephones — Differential between rural metallic and rural grounded service.*

1. It is neither reasonable nor practical to establish a differential in telephone rates between rural metallic and rural grounded service, p. 49.

*Rates, § 554 — Telephones — Rural battery and rural magneto service — Differential.*

2. A differential of 25 cents per month between rural common battery and rural magneto telephone service is reasonable in view of the improved quality of the battery service and the additional maintenance required, p. 49.

*Rates, § 575 — Telephones — Discontinuance of free interexchange service.*

3. A telephone company will be authorized to discontinue unlimited interexchange telephone service between the areas in which it is located and several other communities where the community of interest between the areas is not such as would warrant the continuance of such service, p. 49.

*Return, § 111 — Reasonableness — Telephone company.*

4. A telephone company was allowed a return of 5.9 per cent on its net book value rate base, which return was considered reasonable and lawful, p. 49.

By the COMMISSION: The Black Earth Telephone Company, Black Earth, Dane county, on August 17, 1949, filed an application with the Commission for authority to increase rates; to revise its rules; and to discontinue present unlimited interexchange service between its exchange and exchanges of other companies at Mt. Vernon, Verona, and New Glarus.

**APPEARANCES:**

Black Earth Telephone Company, by Robert Haseltine, Manager, and

William Simley, Treasurer, Black Earth.

As their interests may appear: Mt. Vernon Telephone Company, by Ernest Gilden, President, and Fred Koch, Secretary; Mt. Horeb Telephone Company, by Jake Lindgard, President, and B. E. Dahlen, Manager, Mt. Horeb.

Of the Commission staff: W. H. Evans, rates and research department, and C. F. Riederer, engineering department.

The Black Earth Telephone Compa-



# WISCONSIN PUBLIC SERVICE COMMISSION

ny maintains a central office in the village of Black Earth rendering common battery service to 38 business and 189 residence stations in the urban portion of its exchange and magneto service to 227 rural subscribers. The company in 1948 had gross revenues of \$9,149 and operating expenses of \$8,946 resulting in net operating revenues of \$203. Net operating revenues in 1947 amounted to \$135. Operating expenses have been kept at a minimum and applicant is now faced with the necessity of increasing the wages of its employees to a level being paid to employees of neighboring telephone exchanges. Furthermore, there are approximately 79 miles of rural grounded circuit to be metalicized.

Applicant requests the Commission to set up a rate schedule which will allow a reasonable return on its investment and provide a comprehensive schedule of rates for the various classes of service. In addition, authority is requested to discontinue unlimited interexchange service without charge for messages originating at the Black Earth exchange and terminating at the Mt. Vernon, Verona, and New Glarus exchanges. The latter exchanges are owned by other telephone companies and a peg count for a period of fifteen days beginning August 19, 1949, indicates that the traffic averaged one message per day during the 15-day period. Applicant desires to retain present unlimited interexchange service to the Mt. Horeb and Mazomanie exchanges.

It is also proposed to establish a service connection charge, to discontinue the service deposit rule, and to limit the company's liability for extension of rural lines to 5 spans of wire

and to require a guaranty of service for a definite period of time. Subscribers would be billed either monthly or quarterly in advance at the subscriber's choice. Because the applicant has one common battery multiparty rural circuit and both metallic and grounded rural magneto services, it is proposed that a differential in the rural rate be set up for such services.

The present exchange rates are as follows:

	Monthly Rate	
	Gross	Net
Urban Service		
Business		
One-party .....	\$1.65	\$1.55
Multiparty .....	1.50	1.40
Residence		
One-party .....	1.45	1.35
Multiparty .....	1.35	1.25
Rural Service		
Multiparty .....	1.30	1.20

The Commission has prepared a pro forma income account. Revenues are estimated on the basis of rates designed to yield a reasonable return on the net book value rate base. Operating expenses are based on labor rates and cost of material submitted by the applicant after adjustment to reflect labor expense apportionable to construction. A pro forma income account and a rate base are shown below:

Operating Revenues	
Local service .....	\$12,097
Toll service .....	2,500
Miscellaneous .....	50
Total .....	\$14,647
Deduct uncollectibles .....	75
	\$14,572
Operating Expenses	
Repair labor .....	\$1,800
Repair materials and supplies .....	505
Miscellaneous maintenance .....	90
Station removal and changes .....	80
Operator's wages .....	5,291
Other traffic expense .....	600
General office salaries .....	2,100
Other general expense .....	750
Total above .....	\$11,216

# RE BLACK EARTH TELEPH. CO.

Depreciation expenses .....	1,050
Taxes other than income .....	855
Income taxes .....	334
Total operating expenses ....	<u>\$13,455</u>
Net Operating Income .....	\$1,117
Rate Base	
Property and plant 12/31/48	\$27,058
Deduct:	
Reserve for depreciation	10,897
	<u>\$16,161</u>
Add:	
Cash working capital ...	1,122
Materials and supplies ..	1,795
	<u>2,917</u>
Net book value rate base .....	\$19,078

The pro forma net operating account represents a 5.9 per cent return on the net book value rate base. When applicant completes its reconstruction of rural lines, the net book value of plant in service will be increased; but it is anticipated that additional subscribers will be secured and the revenue from the subscribers will increase the net operating revenues proportionally. The rates required to cover operating expenses, fixed charges, and return represent a gross increase of approximately \$5,600 per year.

[1, 2] The Commission does not believe it reasonable or practicable to establish a differential in rates between rural metallic and rural grounded service. The grounded circuits should be metallicized without delay. A differential of 25 cents per month between rural common battery and rural magneto service is reasonable, however, in view of the improved quality of the service and the additional maintenance required.

[3, 4] The Commission will authorize discontinuance of unlimited interexchange service to Mt. Vernon, Verona, and New Glarus. The traffic

study reveals very little community of interest between Black Earth and these exchanges and certainly not a community of interest such as would warrant the continuance of unlimited interexchange service. The Commission will also provide for proper rules and regulations including a reasonable rural extension rule to aid the company in the administration of its telephone service.

The Commission finds:

1. That the present exchange rates of the Black Earth Telephone Company are unreasonable because of inadequacy.

2. That the present unlimited interexchange service for messages originating at Black Earth and terminating at Mt. Vernon, Verona, and New Glarus is unreasonable and discriminatory.

3. The net book value of the applicant's property and plant in service plus cash working capital and materials and supplies is \$19,078 and such value is a reasonable and proper rate base for the purposes herein.

4. That the exchange and toll rates authorized herein are reasonable and lawful and will yield a return of approximately 5.9 per cent on the net book value rate base found above.

The Commission concludes:

That an order granting an increase in exchange rates and the abandonment of unlimited interexchange service of the Mt. Vernon, Verona, and New Glarus exchanges as proposed herein be authorized.

## ORDER

It is therefore *ordered*:

That the Black Earth Telephone

## WISCONSIN PUBLIC SERVICE COMMISSION

Company discontinue its present toll and exchange rates and rules and substitute therefor effective the first bill- ing date subsequent to the date of this order the toll and exchange rates and rules in the appendix attached hereto.

ROCHESTER (NEW YORK) CITY COURT, CIVIL BRANCH

Gertrude M. Jones

v.

Rochester Transit Corporation

November 14, 1949

**A**CTION by passenger to recover damages from transit company because of company's allegedly unjustified refusal to transport for fare offered; complaint dismissed.

*Rates, § 49 — Powers of Commission — Contract for transit service.*

1. The contract entered into between a transit company and a passenger when the passenger purchases tokens for future service is subject to the inherent right of the Commission to change the terms of the agreement, particularly with respect to the consideration to be paid for the service, p. 52.

*Constitutional law, § 24 — Contract impairment — Paramount power of state over rates.*

2. The modification of a contract, evidenced by a token sale, between bus passengers and a transit company, as the result of a fare increase by the Commission, is not an unconstitutional impairment of a contract obligation, p. 52.

*Service, § 133 — Denial by transit company — Refusal to pay fare.*

3. The refusal of a transit company to carry a passenger offering an "old" token as payment for her fare is justified and lawful after the establishment by the Commission of new token fares, p. 53.

*Rates, § 521 — Transit company — Collection of token fares after rate increase.*

4. The action of a transit company in accepting as fare "old" tokens with a penny after an increase in token fares has been allowed is not unreasonable or unlawful, notwithstanding the fact that the value of the total fare collected amounts to 9½ cents, while the legal token rate is 9 cents, since what the transit company actually is doing is accepting the "old" token as part payment of the 10-cent cash fare, so that no excessive charge actually is being made, p. 53.

APPEARANCES: W. Martin Jones, (Emmett L. Doyle of counsel), for Jr., for the plaintiff; Nier & Doyle the defendant.

JONES v. ROCHESTER TRANSIT CORP.

OGDEN, J.: In this action plaintiff seeks to recover damages from the defendant because of defendant's unjustified refusal to carry her as a passenger on one of its busses. There is no substantial dispute as to the facts. August 21, 1949, was the effective date of a new schedule of fares to be charged by defendant, and notice of such fare changes (authorized by the Public Service Commission of the state of New York) had been given by posters in busses. The Public Service Commission order continued the cash fare for one ride at 10 cents but changed the price of tokens (each good for one ride in the city) from six for 50 cents to five for 45 cents; defendant by the means above-specified notified the public that "old" tokens (which were a different color from the new ones) would be redeemed for cash at defendant's office or would be accepted, plus one cent, for one city ride. On August 21, 1949, plaintiff boarded one of defendant's busses and deposited in the fare-box an "old" token, which had been purchased August 8, 1949; the bus operator requested plaintiff to deposit an additional cent, which plaintiff refused to do; there is some evidence that a discussion ensued wherein plaintiff offered to purchase "new" tokens if the operator would return the "old" token (which could not be taken from the fare-box by the operator). Both individuals remained adamant and plaintiff left the bus after it had traveled some two blocks, but long before she reached her destination. No physical force was used upon, or offered to, plaintiff.

Counsel for plaintiff very zealously urges two grounds as the bases for her right to recover—first, that the token

purchased August 8, 1949, containing the words "good for one city fare" thereon, constituted a contract between plaintiff and defendant whereby defendant became obligated to transport plaintiff at any time, at least until the Statute of Limitations as it might affect a contract became effective; that any change in the terms of the contract—the charging of an additional cent or the refusal itself to accept that token as entitling plaintiff to one city ride—constituted an impairment of the obligation of a contract contrary to the provisions of the state and Federal Constitutions; and second, that no authority existed for a charge equivalent to 9½ cents per city ride, for under the Public Service Commission order the city fare was either 10 cents straight or 9 cents if paid by token.

Counsel for defendant claims that plaintiff did not pay or tender a proper fare at the time in question and that defendant's refusal to carry her was thereby justified.

In 1946 the courts of this state held that the Public Service Commission had the right to fix rates for transportation service in the city of Rochester (Rochester Transit Corp. v. Public Service Commission [1946] 271 App Div 406, 67 PUR NS 234, 66 NYS2d 593; leave to appeal denied [1947] 271 App Div 944, 67 NYS2d 716; 296 NY 1061, 73 NE2d 121). In May, 1949, this right was reaffirmed in Rochester v. Public Service Commission 275 App Div 172, 80 PUR NS 239, 89 NYS2d 545; appeal to court of appeals now pending. For the purposes of the decision of the case at bar it must, therefore, be assumed that the decision in *Quinby v. Public Service Commission*, 223 NY 244, PUR

# ROCHESTER CITY COURT, CIVIL BRANCH

1918D 30, 119 NE 433, 3 ALR 685; (1919) 227 NY 601, 124 NE 790, no longer controls rates of fare on Rochester's public transportation system and that the Public Service Commission has jurisdiction to regulate rates of fare to be charged by defendant. Pursuant to such authority the Public Service Commission by order effective August 21, 1949, approved, among others, the following rates of fare to be charged by defendant:—cash fare for one city ride, 10 cents (unchanged); five tokens (each good for one city ride) for 45 cents, instead of the former rate of six tokens for 50 cents.

[1, 2] When plaintiff purchased tokens on August 8, 1949, she obtained certain metal objects each of which was evidence of her right upon presentation to demand transportation upon defendant's busses; an executory contract was entered into with the defendant. This contract could not be fully executed until plaintiff was in fact transported upon one of defendant's vehicles. Both parties entered into the contract subject to the inherent right in the state of New York, through its Public Service Commission to change the terms of the contract, particularly in respect to the consideration to be paid by the public, including plaintiff, for the defendant's services (People ex rel. South Glens Falls v. Public Service Commission, 225 NY 216, PUR1919 C 374, 121 NE 777; People ex rel. New York v. Nixon, 229 NY 356, PUR1920F 1008, 128 NE 245; Clute v. Nassau & S. Lighting Co. 118 Misc 630, PUR1922E 837, 195 NYS 84; Queens-Nassau Transit Lines v. Maltbie [1946] 271 App Div 81, 65 PUR NS 481, 63 NYS2d 712; International R. Co. v. Public Service Commission, 226 NY 474, PUR1919F 355, 358, 124 NE 123). International R. Co. v. Public Service Commission, *supra*, the court said: "There is nothing to show, and we have no right to assume, that the reservation of the power of the state was for the benefit of one of the parties to the exclusion of the other. The power to regulate rates is the power to increase them if inadequate just as truly as it is the power to reduce them if excessive." Such modification of the contract to transport plaintiff is not an impairment of the obligation of a contract, within the prohibition of state and Federal Constitutions (People ex rel. New York v. Nixon, *supra*; People ex rel. South Glens Falls v. Public Service Commission, *supra*). In People ex rel. New York v. Nixon, *supra*, Judge Cardozo pointed out (229 NY at pp. 359-361, PUR1920F at pp. 1010-1012) that with the creation of the Public Service Commission as the delegate of the state "Rate-making was to be no longer an affair of predominantly private interest, in which the state would interfere without system and with spasmodic and intermittent action. A superintending agency of government had taken the matter in hand.

"The question soon arose whether the new rule was retroactive, and annulled existing contracts in conflict with its terms. Indisputably it annulled such contracts between carriers and passengers, or carriers and shippers. . . . We held, however, in *Quinby v. Public Service Commission*, 223 NY 244, PUR1918D 30, 119 NE 433, 3 ALR 685, and (1919) 227 NY 601, 124 NE 790, explained and limited in *People ex rel. South Glens Falls*

al R. Co. v. Public Service Commission, 226 NY 474, PUR1919F 355, 358, 124 NE 123). International R. Co. v. Public Service Commission, *supra*, the court said: "There is nothing to show, and we have no right to assume, that the reservation of the power of the state was for the benefit of one of the parties to the exclusion of the other. The power to regulate rates is the power to increase them if inadequate just as truly as it is the power to reduce them if excessive." Such modification of the contract to transport plaintiff is not an impairment of the obligation of a contract, within the prohibition of state and Federal Constitutions (People ex rel. New York v. Nixon, *supra*; People ex rel. South Glens Falls v. Public Service Commission, *supra*). In People ex rel. New York v. Nixon, *supra*, Judge Cardozo pointed out (229 NY at pp. 359-361, PUR1920F at pp. 1010-1012) that with the creation of the Public Service Commission as the delegate of the state "Rate-making was to be no longer an affair of predominantly private interest, in which the state would interfere without system and with spasmodic and intermittent action. A superintending agency of government had taken the matter in hand.



# JONES v. ROCHESTER TRANSIT CORP.

v. Public Service Commission, *supra*, and again in International R. Co. v. Public Service Commission (*supra*), that the legislature did not intend to clothe the Commission with the power to release the obligation of then existing contracts between railroads and municipalities when the contracts established rates as conditions of a franchise. We did not hold that there was any constitutional restraint upon the grant of such power. Restraint under the Federal Constitution there certainly was none (citing cases). We left open the question whether there was any under the Constitution of the state.

"A different problem confronts us here. Here the statute was in existence when the municipal consent was given. Recognition in such circumstances of the power of the Commission involves no interference with a grant already executed. No condition is annulled; no defeasance is abrogated; no obligation of contract is nullified or impaired. . . . Impairment is inconceivable when, at the time of the contract, the statute is in force (citing cases). . . . This is merely to give effect to the settled rule that contracts are made in submission to existing legislation."

The invalidation of "old" tokens because of the increase of the price of token fares to be charged by defendant, authorized by the Public Service Commission, was not an impairment of the obligation of a contract and defendant's refusal to carry plaintiff as a passenger upon presentation of the "old" token alone, was justified and lawful (*Elmore v. Sands* [1874] 54 NY 512; *Van Damm v. Long Island R. Co.* [1944] 183 Misc 814, 52 NYS2d 218).

[3, 4] Coming to plaintiff's second point, it appears that when the Public Service Commission authorized defendant to increase its charge for token fares (from the equivalent of 8½ cents per ride to 9 cents per ride) defendant gave notice to the public in the manner above specified that any person possessing an "old" token (1) might redeem the same for cash upon presentation to defendant or (2) could use the same for one city ride by presenting the "old" token plus one cent upon entering a bus. This procedure was not formally authorized by the Public Service Commission.

As has been pointed out herein, the "old" token no longer entitled its holder to a ride upon defendant's transportation system—it was no longer a valid token; at most it had become evidence of an indebtedness from defendant to such holder. Our monetary system includes no unit in everyday use whereby cash transactions involving a fraction of one cent may be had and it is self-evident that "old" tokens could not be redeemed at the exact price paid therefor, unless presented in multiples of three; either the holder of the token or the defendant would have to lose some part of the consideration paid. From every practical standpoint it was a reasonable regulation on the part of defendant to accept the "old" token as part-payment of a cash fare, at the option of the holder. The tariff of defendant in effect August 21, 1949, and approved by Public Service Commission order provided that the cash fare charged by defendant should be 10 cents. Was the acceptance by defendant of a cash fare in the amount of 9½ cents a violation of law, of which plaintiff could complain, or which

## ROCHESTER CITY COURT, CIVIL BRANCH

would justify plaintiff's refusal to pay such 9½ cents fare?

Section 5 of the Public Service Law gives jurisdiction to the Public Service Commission over street railroad corporations and omnibus corporations. The court in *Rochester v. Public Service Commission* (1949) 275 App Div 172, 80 PUR NS 239, 89 NYS2d 545, held that defendant is an omnibus corporation—no longer a street railroad corporation.

Section 60-a, Public Service Law, provides as follows:

"Section 60-a. Safe and adequate service; just and reasonable charges; unjust discrimination; unreasonable preference

1. Every omnibus corporation shall furnish and provide with respect thereto, such service and facilities as shall be safe and adequate and in all respects just and reasonable. All charges made or demanded by any such omnibus corporation for the transportation of passengers or for any service rendered or to be rendered in connection therewith, shall be just and reasonable and not more than allowed by law or by order of the Commission having jurisdiction and made as authorized by this chapter. Every unjust or unreasonable charge made or demanded for any such service or transportation of passengers or in connection therewith or in excess of that allowed by law or by order of the Commission is prohibited.

2. No omnibus corporation shall directly or indirectly, by any special rate, rebate, drawback, or other device or method, charge, demand, collect or receive from any person or corporation a greater or less compensation for any service rendered or to be rendered

in the transportation of passengers, than it charges, demands, collects, or receives from any other person or corporation for doing a like and contemporaneous service in the transportation of a like kind of traffic under the same or substantially similar circumstances and conditions.

3. No omnibus corporation shall make or grant any undue or unreasonable preference or advantage to any person or corporation, or subject any particular person or corporation to any undue or unreasonable prejudice or disadvantage in any respect whatsoever."

The charge of 9½ cents for a cash fare is not in violation of Subd. 1 of § 60-a (*supra*) for such charge is just and reasonable and not more than allowed by law or by order of the Public Service Commission. As to Subds. 2 and 3 of such law, defendant was not attempting to collect or receive from plaintiff a greater or less compensation than it charged to others for doing a like and contemporaneous service under the same circumstances and conditions; such charge was not unreasonably preferential or prejudicial and was not a violation of these subdivisions.

In her complaint plaintiff alleges, and there is some evidence to support the allegation, that after she refused to pay the additional one cent demanded by the operator a discussion occurred between the operator and herself wherein she offered to purchase "new" tokens if the operator would return to her the "old" token already deposited in the fare-box. Obviously, the operator could not do this, and in my opinion this allegation (and the evidence in support thereof) is sur-

## JONES v. ROCHESTER TRANSIT CORP.

plusage; plaintiff's right to recover depends upon defendant's demand, and plaintiff's refusal, to pay an additional one cent.

For the reasons above stated, plaintiff's complaint must be and hereby is dismissed.

In reaching the foregoing conclusion I am not unmindful of the appeal now pending in the court of appeals in the case of Rochester v. Public Service Commission (*supra*) and the possi-

bility of the reversal by the court of appeals of the judgments of the lower courts, and the finding implicit in such a reversal that the Public Service Commission had no jurisdiction to fix rates of fare to be charged by defendant (Quinby v. Public Service Commission, 223 NY 244, PUR1918D 30, 119 NE 433, 3 ALR 685). I believe the plaintiff may fully protect herself against such an eventuality.

## SECURITIES AND EXCHANGE COMMISSION

### Re The Middle West Corporation et al.

File No. 70-1957, Release No. 9260  
August 5, 1949

**A**PPPLICATION by nonaffiliated holding companies for authority to sell common stock holdings of subsidiary and for exemption from competitive bidding requirements with respect to the sale; sale approved subject to reservation of jurisdiction over terms of sale and exemption granted subject to conditions.

*Security issues, § 112 — Exemption from competitive bidding — Holding company regulation.*

Two nonaffiliated holding companies were granted an exemption from the competitive bidding requirements of Rule U-50 of the Securities and Exchange Commission, with respect to the sale of their holdings of common stock of a subsidiary electric utility company, where their attempt to sell the securities pursuant to competitive bidding had been unsuccessful, where only a small fraction of the common stock was in the hands of the public, where there had been no opportunity to establish a market value for the stock, where the company was rather isolated and little known, where the entire issue was relatively small, and where there was pending before the state Commission of the state in which the subsidiary operated a proceeding to determine its rate structure.

**APPEARANCES:** William H. Mathers, of Milbank, Tweed, Hope & Hadley, New York city, for The Middle West Corporation and Consolidated

Electric and Gas Company; Percival E. Jackson, for certain Bondholders of Central Public Utility Corporation; Frank Field and Harold J. Grif-

## SECURITIES AND EXCHANGE COMMISSION

fin, for the Division of Public Utilities of the Commission.

By the COMMISSION: The Middle West Corporation ("Middle West") and Consolidated Electric and Gas Company ("Consolidated"),<sup>1</sup> nonaffiliated registered holding companies have filed a joint declaration with this Commission pursuant to § 12(d) of the Public Utility Holding Company Act of 1935, 15 USCA § 791 (d) ("Act"), respecting the sale of the 34,000 and 120,000 shares, respectively, of the common stock, \$9 par value per share, of Upper Peninsula Power Company ("Upper Peninsula"), a subsidiary of both holding companies, held by them. The declarants have also filed an application in which they request that the sale of such shares be exempted from the competitive bidding requirements of Rule U-50 promulgated under the Act.

After appropriate notice,<sup>2</sup> a public hearing was duly held on the application and declaration and no persons appeared at the hearing in opposition to the companies' proposals.<sup>3</sup> The Commission, having considered the record, makes the following findings:

Inasmuch as the details of a negotiated sale necessarily are not before us at this time,<sup>4</sup> we are primarily concerned with determining whether the facts warrant an exemption from competitive bidding. Jurisdiction will be

reserved later to pass on the terms of any proposed sale.

Middle West, organized under the laws of the state of Delaware, is solely a holding company. The Commission, pursuant to § 11 (b) (1) of the Act, 15 USCA § 79k (b) (1), has directed Middle West to sever its relationships with certain of its subsidiary companies,<sup>5</sup> including Copper District Power Company ("Copper District"), one of the predecessors of Upper Peninsula. Subsequently, the stockholders of Middle West voted in favor of the liquidation and dissolution of their company and, as a result of a divestment program, the Upper Peninsula common stock is one of the few investments remaining in Middle West's portfolio.

Consolidated, a Delaware corporation, is solely a holding company. Subsequent to the initiation of a proceeding by the Commission pursuant to §§ 11 (b) (1) and 11 (b) (2) directed to Central Public Utility Corporation and Consolidated,<sup>6</sup> Consolidated engaged in a program of disposing of its interests in domestic public utility companies as a method of meeting the requirements of § 11 and the Commission held in abeyance further action in proceedings it had instituted. As a result of its divestment program, Consolidated at present has only two public utility subsidiaries operating in

<sup>1</sup> Consolidated is a subsidiary of Central Public Utility Corporation, a registered holding company.

<sup>2</sup> See Holding Company Act Release No. 9165.

<sup>3</sup> A representative of certain bondholders of Central Public Utility Corporation who appeared at the hearing herein indicated his support of Consolidated's proposals.

<sup>4</sup> In our Findings and Opinion issued in Re New England Gas & E. Asso. Holding Company Act Release No. 7973, January 13, 1948,

we announced that our policy henceforth would be to deny summarily any application for exemption from competitive bidding where the applicant had entered into discussions or negotiations with prospective purchasers respecting the terms of sale prior to obtaining authorization from the Commission.

<sup>5</sup> Re The Middle West Corp. (1944) Holding Company Act Release No. 4846, 15 SEC 309.

<sup>6</sup> See Holding Company Act Release No. 3225, December 27, 1941.

## RE MIDDLE WEST CORP.

the United States, Upper Peninsula and Central Indiana Gas Company.

Upper Peninsula is a Michigan corporation which was organized by Middle West, Consolidated, and Copper Range Company ("Copper Range")<sup>7</sup> to acquire the assets of Copper District, Iron Range Light Power Company, and Houghton County Electric Light Company, three small electric utility companies operating in Michigan. Upper Peninsula was incorporated on February 26, 1947, and was inactive until June 11, 1947, on which date it acquired the assets of the operating companies. The transactions relative to this merger were discussed in and approved by our Findings and Opinion and Order issued May 14, 1947 (Holding Company Act Release No. 7407). In connection with the organization of Upper Peninsula and the subsequent merger of the operating companies, Upper Peninsula issued 200,000 shares of its common stock as follows:

To:

Consolidated .....	120,000 shares
Middle West .....	34,000 "
Copper Range .....	34,800 "
Public holders .....	11,200 "

For a fuller description of Upper Peninsula and its predecessor companies, reference is made to Holding Company Act Release No. 7407 mentioned above.

Attached hereto as Appendices A and B, respectively, are comparative

balance sheets of Upper Peninsula as at March 31, 1948 and March 31, 1949 and comparative income statements for the twelve months period ended March 31, 1948 and March 31, 1949.

Concurrently with approval of the acquisition by Upper Peninsula of the securities and assets of the three operating companies, the Commission also approved the issuance and sale by Upper Peninsula, at competitive bidding pursuant to Rule U-50, of \$3,500,000 principal amount of First Mortgage Bonds and 10,000 shares of Cumulative Preferred Stock.<sup>8</sup> At the time Upper Peninsula advertised for bids, several underwriters had evinced interest in the new securities. However, the company received only one bid for its bonds and no bids for its preferred stock. The Commission thereupon informally granted the company permission to carry on negotiations for the private sale of such securities. A hearing was subsequently held with respect to the results of the company's negotiations and the record indicated that market conditions and the fact that Upper Peninsula was a relatively new and small company which operated in a remote part of the country and was little known were the primary reasons bids were not submitted. The Commission, on June 3, 1947, after considering all factors, approved the terms of the sales negotiated by the company.<sup>9</sup>

<sup>7</sup> Copper Range is primarily engaged in the copper mining business and has been exempted as a holding company pursuant to § 3(a)(1) of the Act, 15 USCA § 79c(a)(1). Re Copper Range Co. (1937) 2 SEC 61.

<sup>8</sup> The sale by the respective holding companies of their common stock interests was originally proposed in conjunction with these transactions but was withdrawn because of a

pending rate proceeding respecting the new company and a condition imposed by the Michigan Public Service Commission that such sales should not be effected until further order of that Commission. A subsequent order removing such condition has been issued.

<sup>9</sup> See Holding Company Act Release No. 7460, June 3, 1947.



## SECURITIES AND EXCHANGE COMMISSION

In September, 1948, Middle West and Consolidated filed the original declaration herein proposing the sale of the common stock of Upper Peninsula. Such declaration contained all documents required to offer such stock at competitive bidding and the Commission, on October 1, 1948, issued a Notice of Filing Pursuant to Rule U-23 in regard to such declaration.<sup>10</sup>

At the time of filing, declarants had anticipated that Upper Peninsula would be able to maintain common stock dividend payments at the rate of \$1.20 per annum. However, Upper Peninsula is primarily a hydroelectric company and a severe water shortage which occurred in its area subsequently necessitated the passing of two quarterly dividends on the common stock.<sup>11</sup> Immediately after Upper Peninsula first passed the quarterly dividend, and prior to the time the declaration could be permitted to become effective under Rule U-23, the declarants requested that action on the declaration be delayed. Subsequently, Middle West and Consolidated filed the instant application for exemption from competitive bidding.

In support of the application for exemption from the requirements of our competitive bidding rule, the companies stress the difficulties encountered in the unsuccessful effort to sell Upper Peninsula's bonds and preferred stock under Rule U-50. They also point out that only a small fraction (6 per

cent) of the Upper Peninsula common stock is in the hands of the public (17 individuals hold 11,200 shares), that there has been no opportunity to establish a market value for the common stock, that the company is rather isolated and little known, and that the entire issue is relatively small. Another factor urged in support of the exemption is the pendency of a proceeding before the Michigan Public Service Commission to determine Upper Peninsula's rate structure.

In view of all the circumstances, we feel that it is not inappropriate to permit the declarants to explore the possibilities of securing a satisfactory offer for the stock through private negotiations. We shall grant the application for exemption from the requirements of Rule U-50.

We shall reserve jurisdiction, of course, to pass on the definitive terms of any proposed sale, and, in that connection, we shall expect a showing to be made that competitive conditions have been maintained, and that the terms of sale are fair and reasonable.

The declarants have requested that our order contain recitals conforming to the requirements of Supplement R of the Internal Revenue Code, as amended. The disposition by Middle West and Consolidated of their interests in Upper Peninsula is in compliance with the requirements of § 11 (b), and our order finally approving the sale of this stock will contain the required recitals.

An appropriate order will issue.

<sup>10</sup> See Holding Company Act Release No. 8553.

<sup>11</sup> In the meantime Upper Peninsula applied to the Michigan Public Service Commission and received a temporary increase in rates. This, however, was to some extent offset by

increased costs of power generation and curtailed consumption. Water conditions in the company's area have improved and the company is presently operating under the rates in effect prior to the temporary increase which was terminated on June 13, 1949.

WISCONSIN PUBLIC SERVICE COMMISSION

## Re Shields Telephone Company

2-U-3082

October 20, 1949

**A**PPPLICATION by telephone company for authority to change switching service and discontinue free toll service; limited approval granted.

*Service, § 276 — Telephones — Discontinuance of switching service.*

1. A small telephone company's application for authority to discontinue switching service received from a larger company for the benefit of a small number of subscribers living closer to the exchange of the larger company than to the office of the smaller company, and to require that these subscribers use the telephone to the larger community nearby on a toll basis, was denied when it appeared that the public interest would not be served by authorizing the change, p. 59.

*Discrimination, § 165 — Telephones — Free interexchange service.*

2. A telephone company's practice of rendering unlimited interexchange service between two communities is discriminatory where the traffic between the two areas is very light and all subscribers are being burdened with support of a service used only by a few, p. 60.

*Rates, § 576 — Discontinuance of free interexchange service.*

3. A telephone company was authorized to abandon free interexchange service between two communities where it appeared that the traffic over the circuit was very light and that all of the company's subscribers were being burdened with the cost of a service used by only a few, p. 60.

By the COMMISSION: On June 16, 1949, the Shields Telephone Company, Neshkoro, Marquette county, filed an application with the Commission for authority to discontinue switching service received from the Commonwealth Telephone Company Montello exchange for lines 74 and 80 of the applicant and to switch such lines from applicant's exchange at Neshkoro and for authority to discontinue interexchange service without toll charge between Neshkoro and Montello.

APPEARANCES: Shields Telephone Company, by Louis Bethke, Secretary-treasurer, Neshkoro. As Their Interests May Appear: Commonwealth Telephone Company, by H. F. Moran, Commercial Superintendent, Madison. Of the Commission staff: W. H. Damon, engineering department.

[1] The Shields Telephone Company serves twelve subscribers near Montello for whom the switching is performed by the Montello exchange of the Commonwealth Telephone

## WISCONSIN PUBLIC SERVICE COMMISSION

Company. The center of the area in which these subscribers live is about 4 miles from Montello, a community of 1,200 population, and about 8 miles from Neshkoro, which has a population of somewhat over 300 people. The community of interest of this area is Montello, and testimony from the witnesses indicates that they have little use for Neshkoro service and are satisfied with the present service. By switching these customers at Neshkoro, it would, in effect, deprive them of Montello service except on a toll basis if the present interexchange service without toll charge is abandoned. It does not appear that the public interest would be served by authorizing the Shields Telephone Company to switch these customers from Neshkoro.

[2,3] In regard to the abandonment of interexchange service without toll charge from Neshkoro to Montello, a peg count taken by Commonwealth Telephone Company indicated that traffic is very light on this circuit. It is discriminatory to burden all subscribers with the cost of this service when only a few make use of it. If standard toll rates were employed, the annual increase in revenue to the Shields Telephone Company would be approximately \$175 per year, which will not make their total net revenues excessive.

Therefore, the Shields Telephone Company should be authorized to establish a toll charge, not in excess of

the standard toll charge between Neshkoro and Montello.

The Commission finds:

1. That it is in the public interest for Shields Telephone Company subscribers switched at the Montello exchange of Commonwealth Telephone Company to continue being switched by this exchange.

2. That it is in the public interest that the Shields Telephone Company eliminate interexchange service without toll charge between Neshkoro and Montello and establish a toll charge not to exceed the standard toll charge and that such charge will not result in excessive earnings.

The Commission concludes:

That an appropriate order should be entered in conformance with the foregoing findings of fact.

### ORDER

It is therefore *ordered*:

1. That the Shields Telephone Company be and is hereby authorized and directed to eliminate interexchange service without toll charge between Neshkoro and Montello and to establish on or before January 1, 1950, a toll charge not in excess of the intrastate toll rate of the Wisconsin Telephone Company.

2. That the application of Shields Telephone Company for authority to discontinue switching of lines 74 and 80 at the Montello exchange of Commonwealth Telephone Company be and hereby is denied.

ARKANSAS PUBLIC SERVICE COMMISSION

## Re Capital Transportation Company

Docket No. U-226

November 4, 1949

**A**PPPLICATION by transit company for investigation of operation and establishment of reasonable fares; objection to bond and refund plan pending rate investigation overruled.

*Reparation, § 45 — Bond to guarantee refund — Sufficiency of bond.*

1. A bond filed by a transit company along with schedules of increased rates, to guarantee refund of excess charges collected in case the rates are found to be excessive after investigation, is adequate when sufficient to cover any possible refunds that may be necessary during a period of ninety days, is a corporate surety bond made by a reputable and reliable surety company, p. 62.

*Reparation, § 45 — Plan for refund under bond — Transit company.*

2. A plan for refund under bond of excess fares collected by a transit company, if required under a final rate order, is feasible when it is provided that each person paying a fare shall be entitled to a refund slip handed to him by the operator as he boards the vehicle, that the passenger shall retain the slip until final determination of the proceeding, and that if a refund is ordered the passenger may redeem each slip from any bus operator as he boards the bus or at various convenient locations; and such a plan is more feasible than a plan that would require the issuance of a receipt by the bus operator to each passenger as he boards the bus, upon which the passenger or the operator must write the passenger's name and address, the passenger to return the original receipt to the operator before leaving the vehicle and to retain a carbon copy, and the company to keep a record, and if a refund is ordered, mail a check in the proper amount to each person whose name appears on the ledger, p. 63.

*Rates, § 83 — Powers of Commission — Suspension of increase — Refund bond.*

3. The Commission has no authority to suspend a rate increase filed by a transit company, together with a bond to insure prompt payment for damages or refunds after a final determination of the reasonableness of the rate, unless the bond is inadequate or the refund plan is unfeasible, p. 63.

*Reparation, § 45 — Bond to guarantee refund — Reports to Commission — New bond.*

4. A transit company which has put into effect an increase in fares, under bond to guarantee refunds if finally ordered after investigation, should render to the Commission a periodic accounting which will reflect the amount of money held in the refund account; and the Commission will order an additional bond at any time it appears that the rights of the public may not be protected by the present bond, p. 64.

*Rates, § 48 — Jurisdiction of Commission — Remand of question to city.*

5. The Commission has no authority to remand, to the governing bodies of

## ARKANSAS PUBLIC SERVICE COMMISSION

cities involved, a proceeding lawfully placed before the Commission by the action of a transit company filing with the Commission schedules increasing fares, together with an adequate refund bond and plan for refund, p. 64.

By the COMMISSION: On September 24, 1949, Capital Transportation Company filed with the Commission rate schedules increasing its fares in Little Rock, North Little Rock, and Cammack Village. On September 29, 1949, the Commission on its own motion suspended the above-mentioned rate schedules.

On October 5, 1949, Capital Transportation Company filed another set of rate schedules, together with a bond purported to be in sufficient amount and with sufficient surety to insure prompt payment for damages or refunds incurred by the company and owed the public because of the effectuation of the new rate schedules which would increase its fares to its patrons. Filed with this bond was a plan purported to insure that each patron would be refunded the correct difference between the existing rates and the rates to be effectuated. This bond was filed allegedly in compliance with § 18 (b) of Act 324 of the general assembly of Arkansas for the year 1935. These rates would be effective on November 7, 1949.

On October 11, 1949, the city of Little Rock, through its city attorney, filed what it called an intervention (hereinafter called a "complaint") which attacked the reasonableness of the plan under which the company proposed to make refunds, if refunds are due, and proposed a substitute plan therefor. In its complaint the city of Little Rock requested a hearing on this matter. On October 18, 1949, the city of North Little Rock, through its city

attorney, filed a similar intervention (hereinafter called a "complaint") in this matter.

On October 27, 1949, the Commission issued its order setting the matter for hearing on November 3, 1949; the order limited the scope of the hearing to two issues: (1) the adequacy of the bond filed by the company; (2) the feasibility of the various refund plans.

Pursuant to the requirements of law, a hearing was duly held in the matter on November 3, 1949, and the hearing was limited as above indicated. At the hearing the appearances of the company and of the two protestants, the city of Little Rock, and the city of North Little Rock, were seasonably entered.

[1] A. The evidence adduced tended to establish certain facts, which facts, together with the applicable law, are controlling in this case. The president, the treasurer and chief accountant, and the superintendent of transportation of the company explained the refund plan proposed by the company, and how the amount of the bond was calculated. The evidence reflects that the amount of the bond is sufficient to cover any possible refunds which may be necessary during a period of ninety days from November 7, 1949. The bond is a corporate surety bond made by a reputable and reliable surety company. The Commission is therefore unable to say that the bond itself, as filed by the company, is inadequate to protect the interest of the public in the event that a refund is



## RE CAPITAL TRANSPORTATION CO.

ordered upon final determination of this matter.

[2] The evidence reflects that the company considered other refund plans prior to adopting the one now before the Commission, and that the results of this consideration were that the proposed plan is more satisfactory from the standpoint both of the public and the company. Under this plan, each person who pays a fare will be entitled to a refund slip. This slip will be handed to the passenger by the operator as he boards the vehicle. The passenger will retain the slip until the final determination of this proceeding. If a refund is ordered by the Commission the passenger may redeem each slip from any bus operator as he boards the bus, or at various convenient locations in Little Rock and North Little Rock. The handling of these slips by operators and other company officials should not materially interfere with the efficient operation of the transportation system. On the other hand, the refund plan proposed by the protestants would require the issuance of a receipt by the bus operator to each passenger as he boarded the bus. This receipt would differ from that proposed by the company in that either the passenger or the operator must write in on the receipt the passenger's name and address, and the passenger must return the original of the receipt to the operator before leaving the vehicle. The passenger would retain a carbon copy of the original. The company would then record in a ledger set up for that purpose the name of each passenger and would keep an account of the sum held in that passenger's name. If the Commission finally ordered a refund, the

company would mail a check in the proper amount to each person whose name appeared on the ledger.

A careful comparison of the two refund plans has convinced the Commission that, of the two plans proposed, the one submitted by the company is more feasible, and would be more satisfactory to all the parties involved. The principal defect in the protestants' plan is that it would materially impede and slow down the operation of the transportation system; this should not be true with respect to the plan submitted by the company.

We are therefore unable to say that the refund plan proposed by the company is not feasible under the circumstances. Any other conclusion by this Commission would be capricious and arbitrary.

Having been unable to find from the evidence that: (1) the bond is inadequate; or that (2) the company's refund plan is impracticable, we are compelled to apply the law governing the operation of this Commission as prescribed by the general assembly in Act 324 of 1935.

[3] Section 18 (b) of that act provides that any "public utility may put such suspended rate or rates into effect on the date when it, or they, would have become effective if not so suspended, by filing with the Department a bond, to be approved by it, payable to the state of Arkansas in such amount and with sufficient security to insure the prompt payment of any damages or refunds to the persons entitled thereto, if the rate or rates so put into effect are finally determined to be excessive; or there may be substituted for such bond other arrangements satisfactory to the Department for the pro-

## ARKANSAS PUBLIC SERVICE COMMISSION

tection of the parties interested." This section means that the legislature has prescribed that we cannot suspend a rate under the present circumstances unless the bond is inadequate or unless the refund plan is unfeasible. The Commission has no choice in the matter.

Upon the application of the facts in this case to the law, the conclusion must follow that the company can put its increased rates into effect on November 7th, as it proposed, whether or not this Commission may deem it advisable to suspend them pending a final determination of the matter.

[4] B. We find that the company should render to this Commission a periodic accounting which will reflect the amount of money held in the refund account. We also point out to the company that the Commission will order additional bond at any time it appears that the rights of the public may not be protected by the present bond.

[5] C. During the course of the hearing the protestants offered Exhibit No. 1, the ruling of the admissibility in evidence of which was deferred. We rule at this time that the exhibit is admissible. At the conclusion of the testimony, the protestants moved that the Commission reject both refund plans, and that it order the company to come forward with a new plan. What we have heretofore said disposes of this motion, and it is hereby denied. Also at the conclusion of the testimony, the protestants moved that the Commission remand the entire proceeding to the City Councils of the cities involved. Act 324, above referred to, prevents our acceding to this request. Once such a proceeding as this has been lawfully placed before the Commission, and the Commission has assumed jurisdiction, the Commission cannot refer the matter to a city governing body. The motion is therefore overruled.



# Industrial Progress

*A digest of information on new construction by privately managed utilities; similar information relating to government owned utilities; news concerning products, supplies and services offered by manufacturers; also notices of changes in personnel.*



## Alabama Pwr. Co. Continues Expansion Program

THOMAS W. MARTIN, chairman of the board, Alabama Power Company, in a year-end statement said that during 1950 the company will continue to expand its generating capacity and expand and improve its transmission and distribution facilities.

Already underway is construction for the installation of an additional 100,000 kilowatt generating unit at Gorgas No. 2 steam plant, in the heart of the Walker county coal fields. This installation will bring the installed capacity at Gorgas up to 290,000 kilowatts and will make it one of the largest steam electric generation centers in the Southeast.

An additional 40,000 kilowatt generating unit will be installed at Chickasaw steam plant, to increase the generating capacity of that plant 50 per cent.

Alabama Power Company plans to bring to near-completion during 1950 construction of its "back-bone" rural lines from which electric service will be available to practically all farms in its service area.

Reviewing accomplishments for 1949 Mr. Martin stated that Alabama Power Company now serves directly approximately 332,700 customers, of which 94,000 are rural. During the year 11,500 rural families in the Company's service area began using electricity for the first time. As of December 31, 1949, the Company was operating over 16,000 miles of rural electric lines of which 1900 miles were built during 1949.

## New Sound-Proof Booth For Noisy Areas

CONTINUING its development of intercommunicating equipment and accessories aimed at solving industrial high noise level problems, Executone, Inc. has brought out a new sound-proof booth, Model M-15.

Offering a practical and economical solution to heretofore unsolved acoustic problems, this new sound booth is a desirable accessory in any installation where Executone Master or Staff stations are located in high noise level areas. By placing the intercom station in the sound booth, a high percentage of the background shop noises are effectively absorbed, and not transmitted in the form of a disturbing blast to the station in the quiet area. Thus, two-way conversation between a quiet location and a noisy location can be carried on clearly and intelligibly.

This unit can also be used effectively in conjunction with dictating machines, sound sys-

tem microphones, and other makes of intercom systems.

Of wooden construction, in attractive dark brown finish, the booth is lined with acoustic insulation board and is 13½ inches high, 13½ inches wide and 13½ inches deep, outside dimensions. It is priced at \$13.50 and is available for immediate delivery.

This new Sound-Proof Booth is made by Executone, Inc., 415 Lexington avenue, New York 17, New York, manufacturers of intercommunicating and sound systems, who maintain installation and service facilities in principal cities.

## Incandescent Lamps Cut Light Bill 12 Billion Dollars

IF all the illumination provided by modern incandescent lamps in the United States was instead provided by carbon filament lamps of the 1906 variety, the nation's light bill would be increased by about 12 billion dollars, Dudley E. Chambers, executive engineer of the General Electric Research Laboratory, said recently at the Franklin Institute in Philadelphia.

Pointing to the modern lamp as an example of widespread benefits brought by industrial research, Mr. Chambers said that not only would the light bill be enormously higher had not the modern lamp been developed but our fuel reserves would be decreased by the yearly equivalent coal rate of about 200 million tons more than at present.

The G-E executive spoke at a seminar on "Research in Industry," sponsored by the Franklin Institute and the Philadelphia District Council of the American Society for Testing Materials.

## Booklet Describes New Control Centers

NEW standardized control centers are described in detail in booklet B-4213, available from the Westinghouse Electric Corporation.

This booklet discusses the safety features of these control centers, including the plug-in type disconnects on the line side, the complete baffling of starter units for added safety in keeping possible faults localized, and the design which permits compartment doors to be closed after the units have been removed, preventing personnel from coming in contact with the live bus.

Included are sections on how to plan a control center, a table containing the dimensions and weights of starter and other interchange-

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Complete information—specifications, prices, literature—is available from Lull Mfg. Company, 3612 East 44th street, Minneapolis 6, Minnesota.

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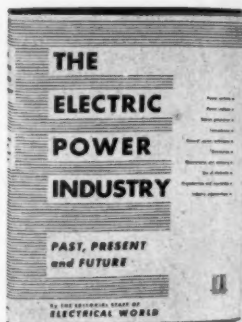
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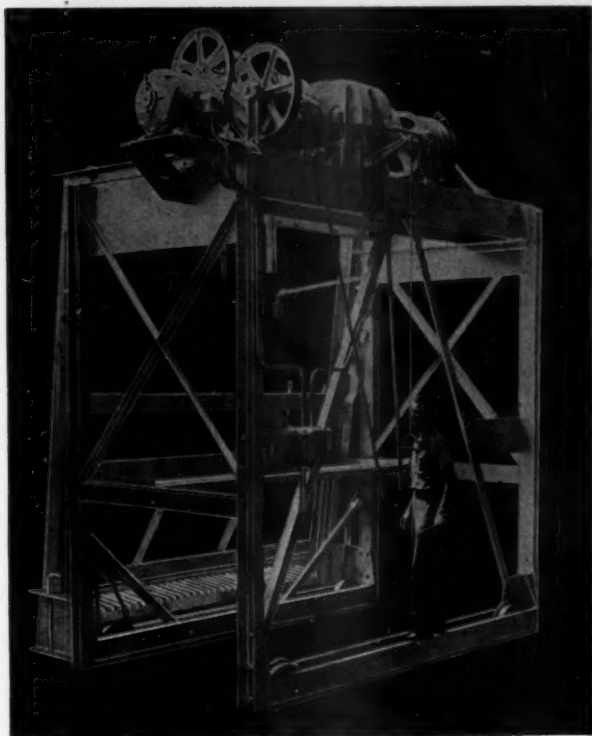
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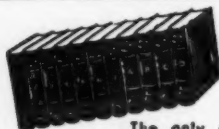
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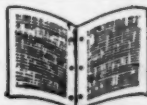
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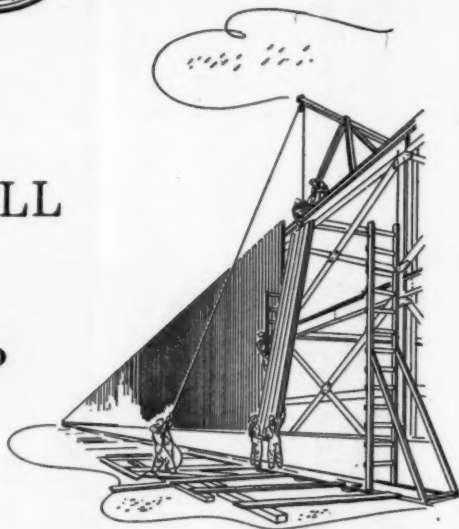
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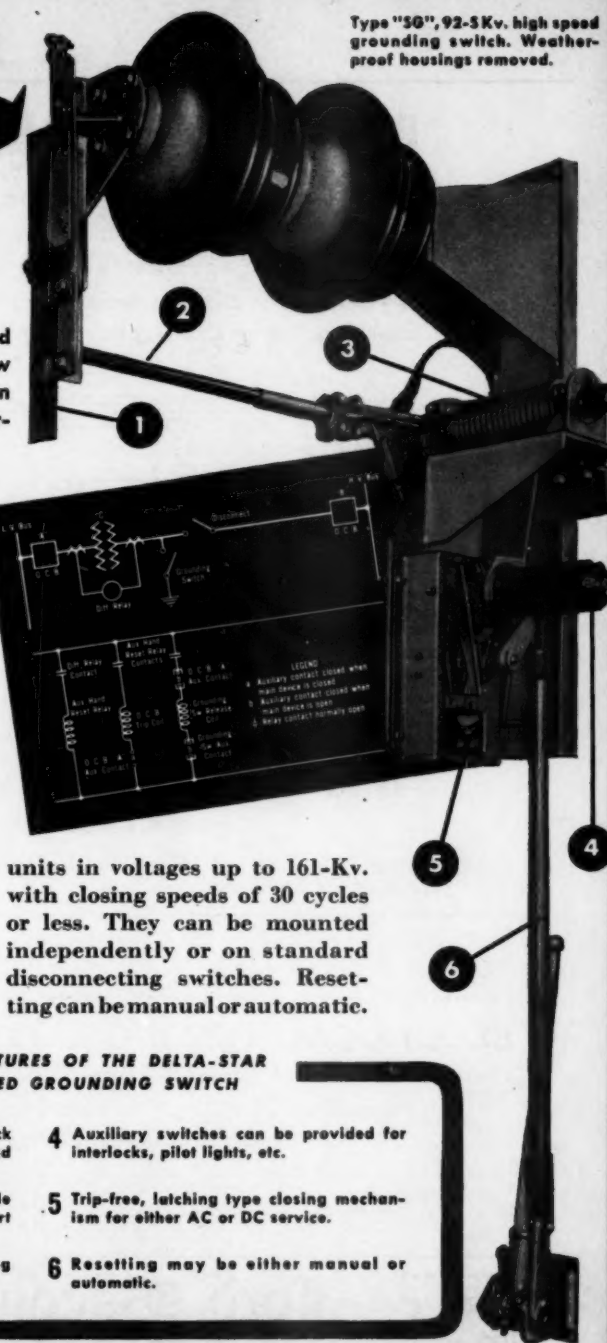
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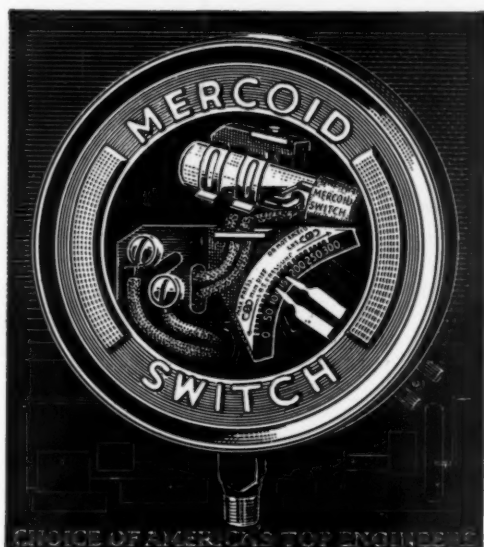
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